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THURSDAY MAY 21 1998

P&G's John Pepper
'I want to see people enjoying themselves'
Interview, Page 24

Serbs in Kosovo
Pessimistic about prospects for co-existence
Page 2

Microsoft
Just doing what every company would like to do
Peter Martin, Page 13

Polish privatisation
Government wants top prices for banks
Page 20

WORLD NEWS

Communists move to impeach Yeltsin as miners block Siberian rail route

Coal miners angry after months without pay cut Russia in half yesterday by blocking the Trans-Siberian Railway, triggering a state of emergency in parts of Siberia and political uproar in Moscow where President Boris Yeltsin faced a new call for his impeachment. Page 2

Italian minister offers to resign
Italian justice minister Giovanni Maria Flick, under fire after a bailed Mafia boss absconded, offered his resignation to prime minister Romano Prodi but was turned down. Page 2

Euro hologram missing
French and German investigators are searching for a French-made hologram design, intended to deter counterfeiting of the European Union's single currency, that disappeared last week between Paris and Munich. Page 14

More Iran-EU talks scheduled
The European Union and Iran plan to hold substantive talks after a positive meeting between senior officials in Brussels, the first stage in moves to resume dialogue.

Rome museum raided
Masked gunmen broke into a Rome museum and stole two priceless paintings by Van Gogh and one by Cézanne. Page 3

Turkish troops mass on border
Thousands of Turkish troops backed by armoured vehicles and heavy artillery have been building up near the border with Iraq. Islamic fightback, Page 3

Foreign students wanted
London's elite universities launched a marketing venture to boost the city's share of the market for foreign students. Page 10

Colombian unit to be disbanded
The Colombian Army is to disband its XX Brigade, a military intelligence unit that has been criticised for its alleged role in human rights violations. Page 6

Ethiopia holds 21 journalists
International press freedom watchdog Reporters sans Frontières said that Ethiopia was holding 21 journalists in its prisons – more than any other country.

Report urges Finnish drink tax cut
A government-commissioned study recommends a cut in Finnish alcohol taxes which would see prices fall 15 per cent by 2004.

UK beef exports look set to resume
Exports of beef from the UK seem certain to resume on June 1, following moves in Brussels this week to end the two-year ban on overseas sales. Page 9

Swiss protest on wartime assets
The Swiss government said it would protest to the US over New Jersey state legislation to punish Swiss banks over second world war assets. Page 2

UN inspectors view Iraqi sites
Iraq said a special team of UN biological inspectors made surprise field visits to 15 sites outside Baghdad.

Cities vie to host G8
Yokohama and Hiroshima plan to join the bid to host the summit of the Group of Eight major powers in Japan in 2000.

Glitch leaves millions out of touch
Millions of pagers stopped working throughout the US when the Galaxy 4 communications satellite suddenly lost track of Earth.

BUSINESS NEWS

Van Miert warns regulators as EU clears rescue plan for Crédit Lyonnais

Karel Van Miert, the European Union's competition commissioner, warned banking regulators to be more vigilant as the Commission cleared a rescue plan for French state-owned bank Crédit Lyonnais. Page 15; Lex, Page 14; End of uncertainty, Page 20

ABN Amro, the Dutch bank, dismissed as "outright nonsense" a newspaper report it was in advanced talks to buy Bear Stearns, the US investment bank. Bear Stearns also denied it was in talks with anyone. Page 18

Norway's finance ministry has deferred a planned $666m global offering of shares in Den norske Bank, the country's largest commercial lender, in the wake of chief executive Finn Hvistendahl's dismissal. Page 20

Canal Plus, the French media group, is interested in acquiring the film division of PolyGram, the Dutch entertainment company for which Canadian drinks group Seagram has mounted a $10bn-plus bid. Page 18

Mannesmann Arcor, one of Germany's new telecoms groups, lifted turnover 67 per cent to DM380m ($213m) in the three months after full liberalisation of the market on January 1. Page 18

Nissan, Japan's second-biggest automotive group, announced a restructuring after revealing it would post its fifth loss in six years. Page 15; Lex, Page 14; Analysis, Page 22

Arthur Andersen, the accountancy firm, is talking to the Brazil firm of Coopers & Lybrand in an attempt to woo it away from the planned $13bn global merger with Price Waterhouse. Page 15

IFIL, the Agnelli family's industrial holding, announced a L647bn ($370m) capital increase to help fund the development of investments in banking, leisure and retailing. Page 18

KLM, the Dutch airline, had its best performance in the year to March, emerging from a Fl 58m ($28.8m) loss in 1996-97 to achieve net profits of Fl 606m. Page 20

IFC, the private sector arm of the World Bank, has agreed to take a stake in Macedonia's state-owned telecommunications utility Makedonski Telekomunikacii. Page 3

Gdynia shipyard in Poland has won an order to build six liquid gas carriers in a deal worth almost $400m signed with Norwegian shipowner Bergesen. Page 7

ENI, the Italian oil and gas group, reported a 3 per cent increase in operating income to L3,901bn ($2.2bn) in the first quarter in spite of lower sales. Page 18

Japan's economic slump has taken its toll on the country's trading companies, which reported big downturns in annual results. Page 15; Exports down, Page 8

Bank of New York withdrew its $24bn offer for Mellon Bank of Pittsburgh, bringing to an end the largest unsolicited bid for a US bank. Page 15; Lex, Page 14

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 37

Brussels agrees tax proposal

By Lionel Barber in Brussels

The push for greater tax harmonisation across the European Union accelerated yesterday when the European Commission unanimously agreed a long-awaited proposal for a minimum tax on income from savings and investments.

Mario Monti, the single market commissioner, expressed confidence about an early agreement among the 15 EU member states which would break a 10-year stalemate over this issue.

The new draft directive is the centrepiece of a package of measures the Commission has tabled to tackle widespread tax evasion before the launch of the euro on January 1 1999.

In addition, all 15 EU countries have agreed a voluntary code of conduct to limit excessive tax competition. Mr Monti claimed the code showed member states agreed on the principles of the minimum savings tax even though they disagreed on the details.

The Commission's proposal recommends a minimum 20 per cent withholding tax. This is to be collected on behalf of national governments by financial institutions holding the savings or securities. These governments will hold the tax unless investors prove they have already paid it on the savings in another jurisdiction.

Alternatively, countries would provide information to other European tax authorities about interest payments to EU citizens resident in their jurisdiction. Banks handling the interest payment would supply the information.

The draft directive would apply to EU resident individuals only, but investment bankers have warned that it could damage European capital markets, notably the eurobond market.

Individual investors still account for 20 per cent of bond holdings, according to the International Primary Market Association, which represents international securities underwriters and distributors.

The British Bankers Association voiced its concern yesterday over the "deeply flawed" proposals. It said they would increase funding costs for borrowers, disrupt the eurobond market and provoke a migration of financial services businesses away from the EU. But Mr Monti said he was loath to support special measures to exempt the eurobond market because it would create loopholes. The eurobond issue was "a very limited problem", he said.

Gordon Brown, UK chancellor, expressed unease this week about the withholding tax, which could also affect British-controlled tax havens in the Channel Islands and the Isle of Man.

'Innovator's Dilemma' wins book of the year

By Peter Martin

A book about corporate innovation is the best business book of the year, according to the Financial Times/Booz-Allen & Hamilton Global Business Book Awards, announced yesterday in New York.

The Innovator's Dilemma by Clayton Christensen, published by Harvard Business School Press, wins the prize for the best business book published in 1997. It explores the ways in which successful companies sometimes miss out on "disruptive" or breakthrough technologies.

The prize was awarded by an international panel chaired by Don Perkins, former chairman and chief executive of the Jewel Companies, and including Richard Lambert, editor of the Financial Times. *The Innovator's Dilemma* receives $10,000, plus another $5,000 for winning the category of Best How-To Book.

Best Book about Business Strategy and Leadership goes to *Machtwechsel im Management*, by Uwe Renald Müller, published by Rudolf Haufe Verlag. The book argues that too many German companies are run by inflexible, elderly managers.

Inside Intel by Tim Jackson (Truman Talley Books/Dutton, HarperCollins Business) wins Best Current Business Narrative for its exploration of Intel's history and the character of its charismatic chief executive Andy Grove. Best Industry Analysis/Business Context goes to *Inside the Kaisha* by Philip Anderson and Noboru Yoshimura (Harvard Business School Press), which offers a glimpse into big Japanese corporations. Each category winner receives a prize of $5,000.

Detailed reviews of the prize-winners will appear in the FT on June 9.

Financial Times | Booz-Allen & Hamilton Global Business Book Awards

INDONESIAN ARMY ALLOWS STUDENT PROTESTS BUT CONTINUES TO SUPPORT PRESIDENT

Suharto feels power of the people

By John Ridding in Jakarta

"Reformasi, Reformasi" sang the students yesterday as they marched through an alley of supporters towards Indonesia's People's Consultative Assembly. "Suharto, Tutut and Bambang – they rob our nation," they chorused in contempt for the Indonesian president and his kin.

It was people's power at parliament yesterday, the focus of Jakarta's protests against the regime of President Suharto. But everywhere else the armed forces clamped a ring of steel across the city, stifling demonstrations.

As Mr Suharto tries to maintain his 32-year hold on power, the occupation of parliament is a humbling blow. "Step down Suharto" read one banner, decrying the corruption of his regime.

While students were penned in by soldiers, it was the Indonesian leader who was really under siege.

On Tuesday, Mr Suharto agreed to step down after holding new general elections and steering through reforms. Those concessions – and fears of civil unrest – have taken the momentum out of the opposition campaign, and may have bought Mr Suharto more time.

But students were unimpressed. Yesterday's crowd demanded Mr Suharto step down immediately.

The students are confident their cause strikes a chord beyond the campus. Outside the parliamentary fence, workers and business people gathered to express their support. As police in trucks passed through the gates, they gave the thumbs-up to the crowd. At parliament at least, the army kept a low profile. "They are with us in their hearts," claimed one of the student throng. But the military is still with Mr Suharto when it counts. The army rejected a parliamentary call for his resignation and spread its hardware across the city at dawn.

At the back of many minds were events in China nine years ago, when the army crushed a students' revolt in Beijing's Tiananmen Square. The military is ready for a Tiananmen situation, said Amien Rais, the Moslem opposition leader, explaining his decision to call off a mass protest yesterday. "I don't want to see more bloodshed, more unnecessary victims," he said, referring to the 500 deaths in rioting in the capital over the past week.

The students appeared calm about the risks of conflict. "I am not afraid, I am sure the thing we do is right," said Harmadi, an engineering student. "I don't think Suharto can continue," said Anand, a science student. For him, the tanks and troops showed the regime's weakness, not its strength.

'Suharto robs our nation' chanted thousands of students outside Indonesia's parliament in Jakarta yesterday Reuters

Reports, Page 8
End of a dynasty, Page 12
Editorial comment, Page 13

Albright says leader should quit

Madeleine Albright, US secretary of state, called on President Suharto to resign, Reuters reports. Mr Suharto "has given so much to his country", and he could preserve his legacy as a man who also provided for Indonesia's democratic transition, she said. A US official said it was diplomatic code to tell "a dictator it's time to effect the transition now".

Nissan shake-up after $107m loss

By Paul Abrahams in Tokyo

Nissan, Japan's second biggest automotive group, yesterday announced a sweeping restructuring after revealing it would post its fifth loss in six years. The grim results were in stark contrast to the record results announced yesterday by Toyota and Honda, Nissan's rivals.

Yoshikazu Hanawa, Nissan's president, yesterday gave details of staff and production cuts and said the heavily indebted company would make net losses of Y14bn ($107.69m) in the last financial year compared with earnings of Y77bn in 1996. The main cause was a disastrous performance in its US operations which lost Y80bn compared with profits of Y20bn in the previous period. The announcement came after the market closed, and the shares ended Y5 at Y482.

"It's incredible that Nissan could be losing that much money in the US, which is enjoying the most buoyant demand growth ever," said Noriaki Hirakata, motor analyst at Morgan Stanley.

Nissan would change its policy from being driven by sales and market share to being profit-orientated, said Mr Hanawa. Tadahiro Shirai, executive vice-president in charge of audit, would be appointed to the new post of chief financial officer. "I may not like it but, if Mr Shirai says a project won't be profitable, then it won't go ahead," said Mr Hanawa.

The company was also abandoning its target of 25 per cent domestic market share.

Nissan plans to cut its debts from about Y2,500bn to Y1,500bn, through improved cash flow, the disposal of property and the sale of cross-shareholdings in other companies. The dividend might also be cut. To improve cash flow, inventories would be cut by about Y250bn by the fiscal year ending 2001. The company would also freeze further investment overseas, except in the US.

Nissan also wants to discuss possible alliances with international groups. Mr Hanawa confirmed he was in discussions with Daimler-Benz over the German company acquiring a stake in Nissan Diesel, the separately quoted truck group in which Nissan holds a 33 per cent stake.

The number of platforms the carmaker produces would also be reduced from 35 at present to 14 in 2000 and just 10 in 2002.

Mr Hanawa admitted the company had been caught out by the recession in Japan.

Lex, Page 14
Nissan's promises, Page 22

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9076.32	(+21.67)
NASDAQ Composite	1829.87	(−16.0)
Europe and Far East		
CAC40	4047.92	(+67.09)
DAX	5510.98	(+122.08)
FTSE 100	5907.4	(+29.6)
Nikkei	15,852.95	(+101.30)
US Lunchtime RATES		
Federal Funds	5.43%	
3-mth Treas Bills: Yld	5.197%	
Long Bond	103½	
Yield	5.887%	
OTHER RATES		
UK: 3-mo Interbank	7⅞%	(same)
UK: 10 yr Gilt	109.8047	(109.854)
France: 10 yr OAT	103.98	(104.02)
Germany: 10 yr Bund	107.52	(107.57)
Japan: 10 yr JGB	111.55	(same)
NORTH SEA OIL (Argus)		
Brent Dated	$14.575	(14.85)

GOLD		
New York: Comex		
(May)	$299.4	(298.7)
London:		
	$299.95	(300.05)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6323	
DM	1.77125	
FFr	5.9395	
SFr	1.4763	
Y	135.975	
London:		
£	1.6318	(1.6246)
DM	1.770	(1.7845)
FFr	5.9365	(5.9831)
SFr	1.4758	(1.4826)
Y	136.1	(136.090)
Tokyo Close		Y 136.18
Sterling		
DM	2.8882	(2.8988)

9 770174 738142 21

CONTENTS

WORLD NEWS
EUROPE

Yeltsin under pressure as miners' pay protests grow

By Carlotta Gall in Moscow

Boris Yeltsin, the Russian president, yesterday faced a new call for his impeachment by the Communists as his government fought to contain spreading unrest among thousands of unpaid miners and workers across the country.

Angry miners blocking the Trans-Siberian railway cut the last transport routes to Siberia yesterday, causing the governor of Kemerovo region to declare a state of emergency.

The two-week-old protests have gained momentum, spreading to southern and far eastern Russia, where doctors, teachers and pensioners have joined the demonstrations.

They represent a serious challenge for the prime minister, Sergei Kiriyenko, who is still struggling with the consequences of a stock market crash earlier this week. Mr Yeltsin appointed him less than a month ago, telling him as a priority to solve the wages arrears which run into billions of dollars.

Mr Yeltsin himself has little to fear from the impeachment proceedings begun by the Communist party in the Duma. Previous efforts to impeach him have failed, as did recent attempts to veto Mr Yeltsin's choice of prime minister.

Nevertheless the Communist leader, Gennady Zyuganov, increased the pressure, calling on all parties to sign his proposal to remove Mr Yeltsin from the presidency.

Mr Kiriyenko yesterday ordered the deputy prime ministers, Boris Nemtsov and Oleg Sysuyev, to cancel foreign trips and go to coal-mining regions to meet strikers. In Moscow the prime minister himself met the head of the independent miners' union, who has warned the miners are close to exploding. They agreed to set up a crisis group.

The government is not directly responsible for the payment of miners' wages since most of the mines have been privatised. But the mines are owed large debts by government-run enterprises and electricity companies and the miners, some of whom have not been paid for six months, hold the government responsible.

Mr Kiriyenko will be hard pressed to find the cash, especially after the battering the economy has taken in the recent days. The government lost billions of dollars when share prices plummeted on Monday and the central bank had to intervene to support the rouble.

Officials said the transport blockages, which have left several hundred passenger and freight trains stranded in Siberia, have so far cost the railways alone over Rbs100m ($16.2m).

The government has promised to solve the issue within a matter of days but analysts warn that the miners' protest is a symptom of a much deeper problem countrywide of inter-enterprise debt.

Communist supporters call for Yeltsin's resignation yesterday AP

Waigel sees more tax stability

By Peter Norman in Bonn

Theo Waigel, Bonn finance minister, was yesterday given the first tentative evidence of more stability in German tax revenues, after years of presiding over deteriorating public finances.

The finance ministry's special commission of tax experts forecast that tax income accruing to Germany's federal, state and local authorities and the European Union would increase this year by 2.9 per cent to DM820.5bn ($460.9bn), reversing last year's decline of 0.4 per cent to DM797.2bn.

The revenues forecast for this year were also higher than the DM814.2bn predicted by the same group last November. Mr Waigel could draw only limited comfort from this news because the projected rise reflected changes to tax legislation masking a DM3bn shortfall in income, as calculated under previous rules.

The experts' forecasts for 1999-2002 were similarly mixed. Though the commission predicted revenues would rise from DM867.8bn next year to DM980.7bn in 2002, it scaled down its previous estimates for the three years to 2001 by a total DM95.9bn.

Mr Waigel said the projected medium-term deterioration came as no surprise. Unlike the estimates for this year, the figures for 1999-2001 were revised down against an estimate of May last year.

The government was conscious of the medium-term trend last autumn, when the experts met to revise their short term forecast. He had taken developments into account in the 1998 budget and would do so in drafting next year's budget and the financial plan to 2002.

The tax experts assumed the economy would grow in nominal terms by 4 per cent this year, 4.5 per cent in 1999 and by 4-4.5 per cent between 2000 and 2002.

Mr Waigel said yesterday's tax estimates showed revenues were responding to the recovery of Germany's economy and employment. But he warned that the structural weakness of Germany's tax system, with its high tax rates and many tax breaks, would persist as long as comprehensive tax reform plans were in abeyance.

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ITALIAN CRIME GOVERNMENT UNDER FIRE

Minister offers to quit over escapes

By James Blitz in Rome

Italy's centre-left government was badly shaken last night by a row over the escape from custody of two notorious criminals, triggering a resignation offer from the minister of justice.

Giovanni Maria Flick handed a three-page letter to Romano Prodi, the prime minister, saying he wished to "assume responsibility" for the recent escape of Pasquale Cuntrera, one of the Mafia's leading bosses, and of Licio Gelli, the former grand master of the outlawed P-2 masonic lodge.

Mr Prodi refused to accept Mr Flick's offer of resignation. But anger over the escapes of the two criminals – both of whom were within days of final sentencing – has been intense in Italy over the past two days.

The escapes are widely seen to have damaged the credibility of a justice system whose complicated procedures allowed both men to be temporarily released pending final appeals.

The Reconstructed Communist party, on whom Mr Prodi relies for a parliamentary majority, warned that the escape of the two men had "increased the scope of a government crisis." Deputies from Silvio Berlusconi's Forza Italia party said they might bring a confidence motion in Mr Flick to the Italian parliament.

If Mr Flick were somehow forced out, it would be only the second time that a senior minister has quit the Prodi administration since it came to power in May 1996. Mr Prodi's aides have long feared that the departure of any minister might unsettle the delicate balance of forces in the Olive Tree coalition.

The escape of Mr Cuntrera, deemed to be one of Europe's most powerful drug barons, only came to light on Tuesday night, within days of his expected sentencing to 21 years imprisonment for drug trafficking.

The Mafia boss, who is confined to a wheelchair, was temporarily released from prison on May 5 on a legal technicality and disappeared soon afterwards.

Italy allows defendants to mount two appeals following initial conviction. However, a court ruled that the delay in the timing of the drug baron's second appeal had extended the period of preventive detention beyond legal limits and he was temporarily released the following day.

The escape of the two men triggered a series of vituperative editorials, not least from Sergio Romano, the distinguished political commentator. Writing in Corriere della Sera, Mr Romano said the escape would have brought about the resignation of a couple of ministers in many other European Union countries.

FREIGHT ROW CUSTOMS CHECKS CAUSE TRUCK DELAYS ON BORDER

New rules hit Finnish-Russian trade

By Tim Burt in Stockholm

Freight transport links between Russia and Finland – accounting for 40 per cent of all international road transport into Russia – have been seriously disrupted this week by a cross-border dispute over road haulage rights.

Movement of goods across the Finnish border – accounting for 40 per cent of all international road transport into Russia – has been delayed or halted altogether following a Russian decision to impose new restrictions on transporting four categories of imports: cars, electronic products, furniture and chocolate.

Under Russian customs proposals unveiled this week, hauliers carrying such products across the Finnish border will be required to travel in convoy to their final destinations – mainly Moscow and St Petersburg.

By using convoys, Russian customs officials hope to prevent products ending up on the black market and curtail fraud among importers. The Finnish government and international haulage groups accuse Russia of flouting international transport agreements and seeking punitive fees for operating the convoys.

According to Finnish estimates, the Russian authorities are demanding $1 to $4 per km for each truck travelling by convoy, lifting haulage costs between Finland and Moscow by up to $4,000.

Matti Aura, Finland's transport minister, yesterday said the Russian action breached the TIR agreement, the 26-nation code which allows trucks marked with the TIR symbol to avoid customs checks until they reach their final destinations.

"According to TIR rules, such convoys are forbidden," said Mr Aura. "We have retaliated, and Finland will no longer allow Russian lorries carrying these four categories of products on Finnish roads."

Finnish border officials have also been ordered to carry out more thorough inspections of Russian lorries. International hauliers say Russian customs officers were searching all trucks to see whether they are carrying any product which would require a convoy.

The tit-for-tat action has started to cause chaos at border crossings used by up to 1,000 trucks a day, with lengthy delays as highways are transformed into haulage parking lots.

Of the traffic crossing the Russian-Finnish border, a third is expected to fall into categories affected by the dispute but transport of other items will inevitably be affected by border delays.

The Finnish road haulage association, representing 9,000 transport companies, has warned that east-west deliveries of manufacturing components, perishable items and consumer products would soon be hampered by the stand-off.

Kosovo Serbs flee war in their ancestral home

Hopes of co-existence between Serbs and Albanians are fading in the troubled province, writes **Guy Dinmore**

Tomislav Novovic has already sent his sister and mother away from Serbia's troubled province of Kosovo and is now moving his collection of several thousand books.

He is not alone among Serbs who fear that whatever the outcome of the spreading conflict with the ethnic Albanian majority there is little chance of co-existence in the future.

"I'm not too optimistic," Mr Novovic comments on the US-led peace effort which began last week with talks in Belgrade between the Yugoslav president, Slobodan Milosevic, and the political leader of the Kosovo Albanians, Ibrahim Rugova.

The process is already faltering. Members of the Albanian negotiating team say further talks scheduled to be held with the Serbian side in the provincial capital of Pristina tomorrow are in jeopardy because of an alleged upsurge in police attacks on civilians and a blockade of trucks bringing food into the province.

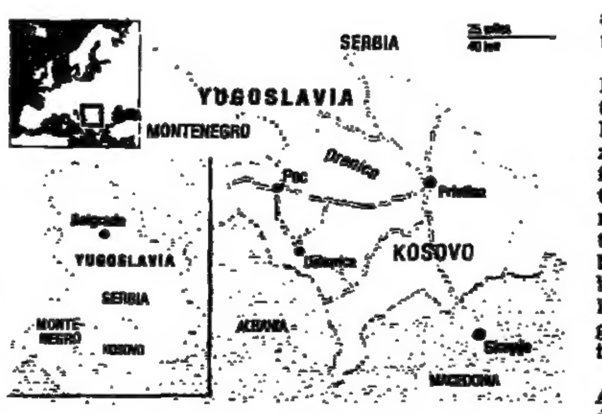
"There is a lot of weapons and a lot of hatred," says Mr Novovic with a sense of deep regret. "We will lose, all of us. This is my town. I had good Albanian friends. Now we only say 'Hello, how are you'."

Mr Novovic, a doctor by training, is an unusual man. He is the director of one of the few schools in Pristina that has pupils from both ethnic groups. He has also joined aid workers trying to help ethnic Albanians short of basic necessities in villages ringed by Serbian security forces.

Tanja, also a Serb, shares his views. She had an Albanian boyfriend for five years and with a twinkle in her eye says she would happily choose another – but in the present atmosphere that is impossible.

"It's all the fault of the politicians. If they left us alone we could live together," she says, launching into an attack on Mr Milosevic who rose to power a decade ago by stirring up Serbian nationalism and stripping Kosovo of its broad autonomy.

With its ancient Orthodox monasteries and the burial grounds tombs of saints, Kosovo is embedded in the legends of the first Serbian kingdoms, despite five centuries of Ottoman rule that only ended in 1912. But in recent decades religious and historical attachments have failed to stem a steady exodus of Serbs from this poorest corner of Yugoslavia.



Statistics are disputed on both sides, but according to the 1981 census Serbs then made up around 13 per cent of the population. In 1991 they had dwindled to under 10 per cent. A law prevents Serbs from selling their property to ethnic Albanians but ways can always be found.

Bishop Artemije, head of the Orthodox Church in Kosovo, condemns what he calls the "destructive policies of the Belgrade regime". In a recent interview with Dnevni Telegraf, a Serbian daily, the bishop warned that Mr Milosevic would lose Kosovo through war just as he did with the mainly Serb-populated Krajina region in Croatia in 1995.

Imams preaching in mosques have started to speak of war, but stop short of calling on the mostly Moslem Albanians to join a "holy war". Although Kosovo is still a broadly secular society and the attendance at Friday prayers is relatively small, the numbers are growing. More young men can be seen growing beards as recommended by Islamic tradition.

Both communities agree that war has begun. More than 150 people have died this year and many fear it is just a matter of time before the violence spreads from mainly Albanian-populated rural areas.

Outside Pristina, in the rough hills of the Drenica region, armed Albanian villagers swear they will not allow a repeat of the slaughter carried out by police in raids on strongholds of the separatist Kosovo Liberation Army (KLA) in February and March. Their fears are real – diplomats have gathered evidence of summary executions that will be presented to the UN war crimes tribunal in The Hague.

"How can we live with the Serbs after all this?" asked one clan leader. And with that he asked his son to start up a generator so that his foreign guests could view a home-video taken just after a police attack on the village of Rakinica on May 1.

> **There is a lot of weapons and a lot of hatred. We will lose, all of us. This is my town. I had good Albanian friends. Now we only say 'Hello, how are you'**

Farmhouses had been raked with bullets and shrapnel, rooms trashed. The body of a half-naked man was shown lying in a wood with half his head blown away.

"Please tell Nato and Europe – don't leave us in the lurch," the old man pleaded. "We are ready to die for our homes."

Over a nearby hill villagers armed with a selection of weapons, from old hunting rifles to Kalashnikovs, have dug trenches and built sand-bagged bunkers. Outsiders are told firmly but politely to turn back.

Just three months ago the KLA, organised by Marxist-turned-nationalist radicals believed to be based in Switzerland, could muster just a few hundred fighters concentrated in several villages reknowned for their resistance to Ottoman and later Serbian rule. Now, diplomats believe, several thousand villagers have weapons smuggled over the Cursed Mountains from nearby Albania.

While a great majority of Albanians aspire to independence, not all are sympathetic to the KLA. One prominent intellectual, who feared to give his name, criticised Mr Rugova for failing to speak out against the KLA. The figurehead "president" of the self-declared Republic of Kosovo, Mr Rugova insists he will not abandon his policy of non-violent resistance to Belgrade but at the same time refuses to acknowledge the obvious and recognise the existence of the rebel group.

Fehmi Agani, a senior adviser to Mr Rugova, is open about their dilemma: "The politicians don't know what to say to the people – whether to take up arms or not. If they do, it is a pretext for the military to intervene. If they don't, then how can they defend themselves from massacres like Drenica?"

Analysts fear the ultra-nationalist pressures on both Mr Milosevic and Mr Rugova will lead Kosovo to a full-blown war that will destabilise Albania as well as Macedonia with its large ethnic Albanian minority.

For many the choice is clear. Mr Novovic, the Serbian doctor and school director, has removed most of his books but is staying on as long as his pupils remain.

"We have two options to go to war, or to go away," he says. "I'll go away."

NEWS DIGEST

GERMAN ECONOMY

Export boom continues to set new records

Germany's export boom continued into March and the first quarter with deliveries abroad hitting new records, the federal statistics office reported yesterday.

Visible exports increased to DM83.9bn ($47bn) in March from DM77.3bn in February and DM70.5bn in March last year, lifting exports in the first quarter by 15.9 per cent to DM235bn compared with the same 1997 period. Imports also increased to DM70.9bn in March from DM65.3bn in February and DM61.3bn in March last year: they totalled DM204bn in the first quarter, up 12.9 per cent on the year before.

March's visible trade surplus of DM13bn helped boost Germany's first quarter surplus to DM31bn from DM22.1bn in the first three months of last year.

On the current account, which tallies trade in goods and services and transfers, a provisional DM9.3bn surplus in March helped halve the first quarter deficit to DM4.5bn from DM9.9bn in the same 1997 period.

● German money supply, as tracked by the Bundesbank's M3 broad money measure, grew at an annualised, seasonally adjusted rate of 4.7 per cent in April, down from March's 5.1 per cent but up on February's 2.8 per cent growth. Last month's money supply growth was within the bank's target range of 3 to 6 per cent as measured against the average of last year's fourth quarter. **Peter Norman**

IONIAN BANK SALE

Strikers defy economy minister

Yannis Papantoniou, Greece's economy minister, yesterday failed to persuade striking workers at state-controlled Ionian Bank to drop their opposition to the sale of a 51 per cent stake to a private Greek bank.

Mr Papantoniou intervened after Ionian's union rejected talks with management and barred the chairman, Haris Stamatopoulos, from the bank's headquarters. He said the terms of sale would ensure that Ionian's 3,400 employees keep their jobs, even if some of its 120 branches were shut down.

Privatisation of inefficient state-controlled banks has become a priority for the government in its drive to improve competitiveness.

The sale of Ionian, which is controlled by the Commercial Bank group, would reduce the state-controlled banks' market share to around 60 per cent.

Workers at other state-owned banks are staging rolling one-day strikes in solidarity with Ionian's union.

Transport and utility workers held a four-hour stoppage yesterday in response to a strike call by the General Confederation of Labour (GSEE), Greece's biggest union grouping. GSEE has called a general strike for May 27 in protest at the privatisation programme. **Kerin Hope, Athens**

ITALIAN ANTITRUST AUTHORITY

Call for break-up of Eni

The new head of Italy's Antitrust authority yesterday called for the grip of majority state-owned group Eni on the Italian oil and gas market to be loosened, insisting on the creation of seperate production and transmission companies to boost competition.

In his first formal address as Antitrust president, Giuseppe Tesauro strongly suggested that the Eni group, the country's oil and gas conglomerate, should be forced to break up its operations into separate units for production and distribution.

At present, Eni has control of production as well as the primary distribution side of the gas industry through its Snam subsidiary. But Mr Tesauro suggested that the creation of an independent distribution service would create "conditions that favour the entry and strengthening of new operators."

Eni said yesterday that it was already unbundling some of Snam's operations, according to the European Union gas directive approved last week. **James Blitz, Rome**

SWEDISH POLITICS

Pledge to cut property tax

The Swedish government, facing parliamentary elections this September, has pledged to reduce property taxes from 1.7 per cent to 1.5 per cent.

Although the ruling Social Democrats had previously appeared to rule out such a tax cut, ministers in the minority government have now agreed a reduction to avoid a parliamentary defeat next month when its housing policies will be put to the Riksdag. The tax cut, agreed after talks between the Social Democrats and opposition Centre party, is expected to reduce government revenues by about Skr2bn ($258m) a year. **Tim Burt, Stockholm**

POLISH MONETARY POLICY

Move to damp down currency

Poland's Monetary Policy Council (RPP) has moved to stem the appreciation of its currency by ordering the central bank to cut the minimum rate for its 28 day money market operations from 23 per cent to 21.5 per cent. In another interest rate move the central bank's lombard rate is to be cut by 1 per cent to 26 per cent and the discount rate from 24.5 per cent to 23.5 per cent.

The move comes as the Polish zloty has been appreciating since the beginning of the year raising fears of a future deterioration in the current account despite a strong export performance in the first quarter. The RPP reduced the money market rate by 1 per cent from 24 per cent last month.

The RPP decision goes some way to accommodating the wishes of officials in the finance ministry who had been arguing for an interest rate cut as early as last february. Then the council widened the band within which the zloty is allowed to fluctuate and reduced the monthly crawling devaluation rate from 1 per cent to 0.8 per cent in line with government policy but increased the money market rate by half a per cent.

The RPP said that tighter fiscal policies and a restrictive monetary policy had eased inflationary pressures allowing the interest rate move. **Christopher Bobinski, Warsaw**

WAR ASSETS LEGISLATION

US provokes Swiss anger

The Swiss government said yesterday it would file a protest with the US over New Jersey state legislation to punish Swiss banks over second world war assets. The Federal Council is to take further steps if the legislation, approved on Monday by the New Jersey Assembly, also passes the Senate and is signed into law by Governor Christie Whitman.

Among Swiss options would be a complaint before the World Trade Organisation, which could issue a binding ruling that such sanctions violate global trade rules.

Pascal Couchepin, economy minister, raised the issue when he met in Geneva with US Trade Representative Charlene Barshefsky, an aide said. Mr Couchepin stressed that the New Jersey vote was in clear contradiction to world trade rules, which ban discrimination. A Swiss government spokesman said: "The Federal Council condemns the decision by the house of representatives of New Jersey to pass a law to boycott Swiss banks in this American state." **AP, Bern**

EU MONEY BRITAIN TO SEEK WAYS AROUND ATHENS' OPPOSITION TO BRUSSELS FINANCIAL AID FOR RIVAL

Greece pressed on Turkey veto

By David Buchan in London and Lionel Barber in Brussels

Britain is mounting a push in the last month of its European Union presidency to get Greece to drop its veto on EU money long promised Turkey as a counterpart to its 1996 customs union with Europe.

Robin Cook, the UK foreign secretary, wound up ministerial talks in Ankara on Tuesday night by telling a press conference "it is clear that 14 member states want to see" Turkey get its promised Ecu375m ($410m) financial aid from Brussels and saying that "there are ways we can take this forward".

UK officials in Brussels suggested yesterday that this might mean Greece's 14 EU partners pushing through some separate financial arrangement for Turkey if Greece does not give way.

Meanwhile, EU ambassadors of the 14 were yesterday trying to persuade their Greek colleague to lift his country's objection to the EU's formal opening statement at an EU-Turkish meeting set for next Monday in Brussels. Turkish ministers have still not committed themselves to attending the meeting, which Britain has called to try end Ankara's five-month freeze in political relations with the Union.

Mr Cook's plan, which met Turkish assent on Tuesday, is for the formal part of the EU-Turkish association council to focus on the Brussels Commission initiative to expand the customs union, and for the sensitive political issues of Cyprus and human rights inside Turkey to be discussed informally. Greece has so far indicated it has no intention of letting the latter issues be sidelined.

A senior UK source claimed this week "there are two or three ways to get around the Greek government's opposition" to the money that Athens was supposed to unblock in return for getting a start to Cyprus' entry negotiations into the EU.

One possibility mooted is to pump more money to Turkey through the EU's Mediterranean programme whose disbursement does not require the unanimous say-so of all 15 states. A more distant option could arise if, following more positive wording at next month's EU summit in Cardiff, it was decided to prepare Turkey for eventual membership negotiations – without a set date like many east European countries but with a set amount of money as these applicants will get.

The same UK source also warned of "a problem for the Greek government carrying on being obstructive on an issue where the 14 feel increasingly strongly".

Turkey's Virtue party to revive Islamist agenda

Defunct Welfare party has regrouped under a new title and is demanding freedom of expression, reports **Kelly Couturier**

Under the weight of a military-led crackdown against Turkey's Islamist movement, the country's new religious-oriented party has begun to fight back.

"There has been an attack on democracy in Turkey," said Aydin Menderes, a member of the Virtue party, which regroups most members of the now-defunct Islamist Welfare party.

The Welfare party was banned for anti-secular activities in January as part of the military-orchestrated clampdown against the country's Islamist movement which began last year.

Anxious to distance themselves from the Welfare party, leaders of the Virtue party have dropped any language that explicitly links them to the previous Islamist movement, preferring instead to stress democratisation and calls for increased freedom of expression.

But behind the new language of the Virtue party, many observers say, is the same goal espoused by Welfare: to bring public policy in this Moslem country more in line with Islamic principles.

"Nothing has changed from Welfare's transition into the Virtue party," said Bulent Akarcali, member of parliament for the ruling Motherland party.

In the continuing crackdown against religious fundamentalism, the minority coalition government of Mesut Yilmaz, the prime minister, has enacted a sweeping education reform that has effectively slashed enrolment in religious high schools.

Police raids have been launched in several cities against businesses suspected of financing fundamentalist activities, with dozens taken into custody for interrogation.

And courts have brought a series of cases against Islamist politicians, including Istanbul mayor Recep Tayyip Erdogan and Necmettin Erbakan, who headed the Welfare party and served as prime minister during the party's brief stint in power in 1996-97. Mr Erbakan's government collapsed in June 1997 under heavy pressure from the military after he failed to enact anti-fundamentalist measures sought by the top brass.

Months earlier the military – the nation's self-appointed guarantors of Turkey's secular traditions – had identified religious radicalism as the country's top domestic threat.

Mr Erbakan, who was banned from practising party politics as a result of the court decision to dissolve the Welfare party, faces trial in June on charges of insulting the Constitutional Court.

Mr Erbakan, who still wields great authority over the Virtue party from behind the scenes, called the decision to ban the Welfare party "a vital and historic mistake" and "legal murder."

Mr Erdogan, who is widely tipped to take over as leader of the Virtue party, was sentenced in April to 10 months in prison on charges of inciting religious hatred for reciting the following lines from a poem during a speech last December: "The mosques are our barracks, the domes our helmets, the minarets our bayonets and the faithful our soldiers."

Free while his sentence is on appeal, Mr Erdogan told a gathering of foreign journalists recently: "In a country where people still wonder whether what they say will lead to their party's closure, the democratisation process cannot be very rapid. If people can speak openly without fear of reprisal we will have a much more transparent and democratic society."

Mr Akarcali, of the Motherland party, agrees that Turkey needs more freedoms, including freedom of expression and freedom of belief.

But like many in the secular establishment, Mr Akarcali shares the military's deep mistrust of the country's political Islamic movement and says that everything now being done by the state to stop fundamentalists in their tracks is justified.

"Democratically, they are totally unreliable," he said, referring to the political Islamist movement.

"They are creating divisions in the country just like the [Kurdistan Workers party] PKK has done," he said, referring to the armed separatist group that has waged a guerrilla war in south-eastern Turkey since 1984.

To overcome those divisions and stop the rise of fundamentalism in Turkey, the government, according to Mr Akarcali, must follow policies geared toward continuing economic growth, reducing inflation – now running at an estimated 90 per cent – and cutting down the gaping disparities in income distribution among Turkey's richest and poorest.

These policies, the legislator says, will do much to repair the political fragmentation that has led to the weak, ineffective government coalitions of recent years.

"When there is a strong civilian government, there is no instability and the army minds its own business," he said.

Two Van Goghs and a Cézanne stolen

Masked gunmen broke into a Rome museum and stole two priceless paintings by Van Gogh and one by Cézanne, a museum official said yesterday. **Agencies report from Rome.**

The gunmen broke into the National Gallery of Modern Art on Tuesday night, bound and gagged three guards and locked them in a room before making off with the paintings, the official added.

Bianca Alessandra Pinto, the museum's superintendent, said the works were Van Gogh's "The Gardener" (above) and "L'Arlésienne", and Cézanne's "Le Cabanon de Jourdan".

The paintings were too famous to be sold and the thieves went directly to them, bypassing other valuable works. This suggested the theft might have been commissioned by an art collector. It was also possible the thieves planned to make a ransom demand.

The Cézanne is one of his last works, painted in 1906, the year of his death. Though unfinished, "Le Cabanon de Jourdan" has immense historical importance, the ANSA news agency said.

The two paintings by Van Gogh were also late works, ANSA added. Van Gogh painted L'Arlésienne early in 1890, the year of his suicide; the painting was exhibited in the historic Van Gogh retrospective in Amsterdam in 1990.

He painted "The Gardener" the year before he died, while a patient at an asylum in St. Rémy, France. Picture, AP

Malta's PM faces mounting opposition

By Godfrey Grima in Valletta

Alfred Sant, Malta's prime minister, is facing open defiance from an increasing number of MPs who oppose many of his key foreign and domestic policies.

These include the decision to put on ice Malta's application to join the European Union, tough budgetary measures being enforced this year, and a proposal to introduce divorce on the predominantly Catholic island.

Leading the charge are two Labour party heavyweights, Dom Mintoff, a former prime minister and party leader, and Lino Spiteri, Mr Sant's former minister for economic planning and finance. Mr Spiteri resigned in March last year, sparking widespread rumours of serious differences with the government over its customs tax regime, which replaced value added tax.

Mr Spiteri set off another controversy this month by advising the government to revive Malta's application to join the EU and by endorsing the virtues of VAT over the existing customs and excise tax regime.

His stand, published in a local newspaper, followed the announcement in Luxembourg in April of the conditions Brussels had laid down for the creation of a free-trade zone with Malta in three years' time.

In addition, two other Labour MPs have stated they will vote against the introduction of divorce in parliament if given a free vote.

Support for Mr Sant's government is at a low ebb, not least because of the sluggish performance of Malta's economy, even though tourist receipts and the export of semi-manufactured goods are on the increase.

IFC to take Macedonia telecom stake

World Bank arm agrees to subscribe to $25m of convertible bonds to help pave way for flagship privatisation in former Yugoslav state

By Kevin Done, East Europe Correspondent

The International Finance Corporation, the private sector arm of the World Bank, has agreed to take a stake in Makedonski Telekomunikacii (MakTel), Macedonia's state-owned telecommunications utility.

It has subscribed to $25m of convertible bonds in MakTel in a preliminary move aimed at paving the way for the flagship privatisation of the telephone operator later this year. It has also undertaken to seek institutional investors to invest a further $25m in a second tranche of convertible bonds.

The Macedonian government is hoping that the IFC investment will increase interest from western telecoms groups in the sale of a strategic holding in MakTel, which is planned to take place by international tender during the summer, before the general election in the autumn.

A successful privatisation of MakTel is crucial to government plans for reforming the slow-moving economy.

The poorest of the states to emerge from the collapse of former Yugoslavia, Macedonia has received less foreign direct investment than any of the countries in east Europe since the collapse of communism.

The value of this single transaction, which could value MakTel at around $500m, is expected to exceed all of the foreign direct investment that has flowed into Macedonia since it declared independence in 1991.

The government is offering a stake of 33.3 per cent and management control as part of the effort to kickstart its belated privatisation programme.

It is planned that the bonds sold to IFC and other potential financial investors will be converted into new shares at the same price as negotiated by the government with a strategic investor, up to an upper limit of 7.5 per cent of the MakTel equity.

Outstanding bonds above this amount will continue to be held by the investors. The bonds have a five-year maturity, variable interest rate, and a two-year grace period for repayment of principal.

Macedonia is also negotiating a separate pre-privatisation financing deal for MakTel with the European Bank for Reconstruction and Development.

The EBRD is considering the investment of $25m in a special category share in MakTel. The share would be exchanged for ordinary shares from the government's holding at the moment of privatisation, as with IFC, at the price agreed with the strategic investor.

A successful privatisation of MakTel is crucial to government plans for reforming the slow-moving economy

The government is offering a monopoly on fixed telephone services to the end of 2005 and on mobile telephony to 2000.

The government is hoping that this deal, together with the imminent sale of a majority stake in Stopanska Banka, the country's largest bank, to a consortium led by Erste Bank of Austria and including IFC and EBRD, will finally put it on the map for foreign investors.

The funds from IFC and other potential investors will be used to finance MakTel's capital investment programme this year of around $75m.

Macedonia's 2m people have about 408,000 telephone lines, a penetration rate of around 20 per cent, but it is planned to double this by 2002.

About 40,000 new lines were installed in 1997 and a further 60,000 are planned this year.

FOOTBALL COMPETITION BLOW TO MULTIPLE OWNERSHIP

Uefa ruling angers commercial owners

By Patrick Harverson in London

A simmering dispute between football's international authorities and the sport's new breed of commercial owners erupted yesterday when Uefa, the European governing body, banned clubs with the same owner from participating in the same competition.

The decision was made by Uefa's executive committee, meeting in Amsterdam for the Champions League final, and will spark a fierce legal battle between club owners and the game's governing body.

"They have now activated a time-bomb," said a football executive who attended the Uefa meetings.

Under the ruling, if two clubs with the same owner qualify for a competition, Uefa will decide which one can take part.

Currently, in Europe only two companies own more than one club, but more corporations are looking into the possibility of multiple club ownership.

Fifa, world football's governing body, is taking a close interest in the multiple club ownership issue, but it has so far fallen short of banning the practice. At its congress in Paris next month Fifa is only considering a new rule prohibiting companies from owning more than one club in the same country.

Enic, the UK sports and leisure group, is football's first conglomerate and owns controlling interests in Vicenza of Italy, Slavia Prague of the Czech Republic and AEK Athens of Greece and a large minority stake in Rangers of Scotland. Canal Plus, the French television company, owns Paris St Germain of France and Servette of Switzerland.

Among other companies considering becoming multiple club owners is IMG, the sports management group run by Mark McCormack, the influential sports agent and entrepreneur. The company already owns Racing Strasbourg of France and has set up a special fund to invest in other clubs and sporting interests.

Enic said yesterday it was taking legal advice about the Uefa ruling, but the company is expected to challenge the ban in the European courts on the grounds that it is a breach of the Treaty of Rome, which protects the free flow of capital and commerce within the European Union.

Legal action is likely to be taken soon because two of Enic's clubs, Slavia Prague and AEK Athens, have qualified for next season's Uefa Cup, the draw for which takes place in July. Canal Plus was not available for comment.

Uefa has taken action against multiple club owners because it fears sporting impartiality could be undermined when two clubs with the same owner meet in competition. In particular, the authorities fear the company would be tempted to "fix" the game to guarantee the most lucrative outcome for its business interests.

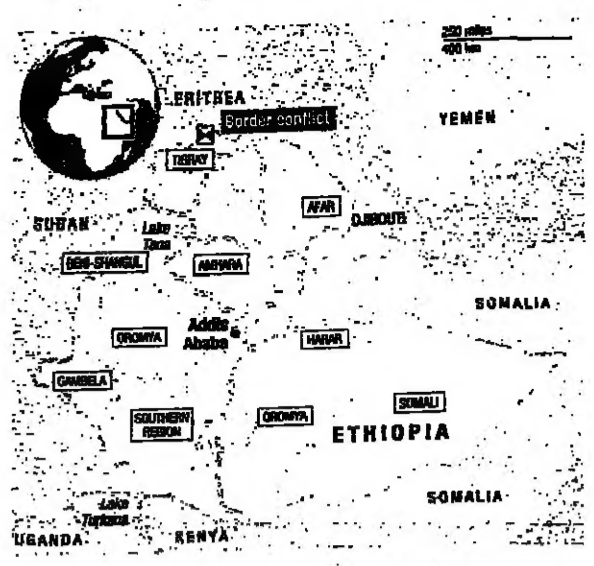
Enic has long argued that such fears are groundless. It has said there would be no risk of match tampering because a meeting of two clubs with the same owner would attract so much scrutiny that it would be impossible.

The speed of Uefa's decision took football by surprise. It had set up two committees to look into the ownership issue only 10 days ago. However, observers believe rumours this week that several corporate takeovers of clubs were imminent spurred Uefa into action.

Observers say Uefa has tackled the issue of club ownership head on because it is worried about powerful corporate owners eventually grouping together to form their own competitions.

Prickly Horn of Africa states threaten to fight over border

Michela Wrong reports that Eritrea and Ethiopia, both scarred by recent conflict, are showing signs of going to war



"Two bald men fighting over a comb" was the way a novelist once described the Falklands war. The same might be said of Eritrea and Ethiopia, which in the past fortnight have been moving, to general bemusement, towards a military showdown over a triangle of border territory.

A year ago the idea that these two former allies, which together toppled Ethiopian dictator Mengistu Haile Mariam, should be threatening to go to war over a 150-square-mile area of land would have seemed absurd.

Both nations, many would have argued, had been scarred too deeply by conflict to dream of another military adventure. Both administrations, regarded by the west as among the most enlightened in Africa, seemed too aware of the need to combat poverty to consider such costly outlay.

Yet by Tuesday Ethiopia's foreign minister was warning his country's patience was at snapping point and the spat could develop into "full-scale conflict".

There were ominous reports of reinforcements and trench-digging and neither Djibouti's President Hassan Gouled Aptidon nor Susan Rice, US assistant secretary of state for Africa, seemed to have made much progress in attempts to mediate between two notoriously inflexible leaderships.

The hostilities which broke out on May 6, claiming anything between 20 and 200 lives, highlight the fact that relations between the two administrations have always been more complex than western governments wanted to believe.

"The relationship between the EPLF and TPLF have always been more up and down than has been portrayed in public," says Patrick Gilkes, an expert on the Horn of Africa. "It has by no means been all sweetness and light." Certainly, Eritrean guerrilla forces trained and nurtured the Tigre People's Liberation Front (TPLF) and spearheaded the assault that allowed the rebel movement to seize control of Addis Ababa, a role recognised with the granting of de facto independence to the province by Ethiopia's new authorities in 1991.

But even when the TPLF and the Eritrean People's Liberation Front (EPLF) were fighting together, there were differences over ideology and squabbles over supply routes, disputes resolutely suppressed at a time when co-operation was deemed essential to victory.

With peace has come a loosening of that discipline and the belated realisation of what Eritrean independence means in strategic and economic terms.

The resulting buildup in tension may explain why an incident which would normally have been dismissed as just the latest in a series of minor border clashes has turned into a dangerous flashpoint.

Many Ethiopians still feel bereaved by the surrender of Eritrea and the Red Sea coastline and blame the loss on what they regard as overly friendly relations between the prime minister, Meles Zenawi, a Tigrayan, and the Eritrean leadership.

Their traders, they complain, are being overcharged at the inefficient port of Assab. They are also aware that while Ethiopian employees were deported from and remain unwelcome in the new Eritrea, 300,000-400,000 Eritreans still work in Ethiopia. That resentment has been matched by anger in Asmara over the reception given the nakfa, the currency Eritrea launched last year. Eritrea had wanted an arrangement allowing the nakfa and Ethiopian birr to be accepted as legal tender in both countries, with both trading at parity.

After months of dithering Ethiopia abruptly rejected that option, insisting Eritrea should be treated in the same way as any other sovereign state and be required to provide foreign exchange to cover all but the smallest transactions.

"In financial terms, the Ethiopians were right to do what they did. But the Eritreans had simply assumed they would get what they wanted," says a local diplomat. "Foreign exchange is in very short supply in Eritrea and there is a huge amount of bitterness over what happened."

Adding to this heady cocktail is the character of the young government in Asmara. Hardened by a quarter of a century in the bush, determined to plough its own furrow, it is showing signs of suffering from "small man" syndrome.

A succession of frontier disputes with Sudan, Yemen and Djibouti have alternated with virulent attacks on the Organisation of African Unity and United Nations by President Issaias Afewerki.

The price of such belligerence comes high. State-owned Ethiopian Airlines has cancelled its flights to Asmara, removing a key link with the outside world for a country with no national airline. Ethiopia's central bank has ordered traders to boycott Assab and Massawa ports, providing Djibouti with an unexpected bonanza.

But if this crisis endures, Eritrea will not suffer alone. After years of painstaking reform, Ethiopia recently declared itself open for business with the outside world. Among the poorest countries in the war, both are desperate for foreign investment in their mining and petroleum sectors. Both may soon realise that war is the biggest business disincentive around.

Israel proposes rules of origin talks with EU

By Judy Dempsey in Jerusalem

Yaakov Neeman, Israel's finance minister, yesterday tried to contain a trade dispute with the European Union, proposing talks on rules of origin for exports given preferential treatment by the EU.

Israel earlier slammed attempts by Brussels to restrict preferential treatment for exports from the occupied territories, which the EU says are not part of Israel.

In a meeting with the 15 EU ambassadors, Mr Neeman warned the peace process could be undermined if such exports were excluded from preferential treatment.

Commission officials in Brussels said they had no intention of withdrawing a paper showing how Israel was contravening agreed rules of origin in the 1995 EU-Israel trade accord.

"Israel must come clean with the rules of origin and play by the book," said a Commission official. "This means letting the Palestinians breathe economically instead of forcing them to trade only with Israel."

Mr Neeman yesterday acknowledged the EU had no intention of imposing sanctions or a boycott.

In a bid to resolve the dispute, Mr Neeman asked the Commission to withdraw the rules of origin paper, and suggested launching discussions on regional or "diagonal cumulation" of origin.

Under this, Israeli companies, for example, would be allowed to export textiles to the EU under preferential treatment even though the textiles were produced in Jordan.

However, the Commission is insisting that regional cumulation talks cannot begin until Israel abides by the rules of origin – and acknowledges the right of the Palestinians to have economic agreements with other states, including the EU. "We have a trade agreement with the Palestinians but Israel's self-imposed obstacles on Palestinian free trade with the rest of the world impede Palestinian economic development. This has to be sorted out first," he added.

Egypt to press on with state bank sale

By Mark Huband in Cairo

Egypt will this year launch plans for full privatisation of a state-owned bank and will open the offer to foreign shareholders, the economy ministry said yesterday. The statement contradicted one made in parliament earlier this week, in which the government said it had shelved plans to privatise the banks for three years.

Parliament had been told that it would take a minimum of three years to sell the four main state-owned banks. But the government yesterday made it clear that it would keep to its original timetable and plans to begin the process of selling one this year.

Parliament is debating legislation allowing the banks to be privatised. New legislation will also allow privatisation of one of the four state-owned insurance companies, also intended for this year.

● Egypt's largest private sector bank, Commercial International Bank, was yesterday assigned a BBB- long-term and A3 short-term rating by Standard & Poor's, the US credit rating agency. S&P said the bank's outlook was stable, in spite of a recent drop in profits following changes in the tax law.

Contract awarded for cable network

By Louise Kehoe in San Francisco

Lucent Technologies has won a $1bn contract to supply equipment and software for Project Oxygen – a global undersea optical cable network to be built over the next four years.

Backed by CTR Group, a New Jersey company specialising in building new cable-based networks, Project Oxygen is a "super internet" that will span every continent except Antarctica, nearly doubling the mileage of today's undersea fibre-optic cable network. The goal of the project was to sharply decrease the cost of communications by increasing available bandwidth, CTR said.

Lucent is the first company to be granted a large supply contract for the project. It will provide networking equipment and software used to route traffic and manage the network which will carry voice, data and video signals. The communications equipment company will begin delivering equipment for the transatlantic phase of Project Oxygen next year. Trans-Pacific routes as well as a terrestrial link across north America, will follow in late 2000.

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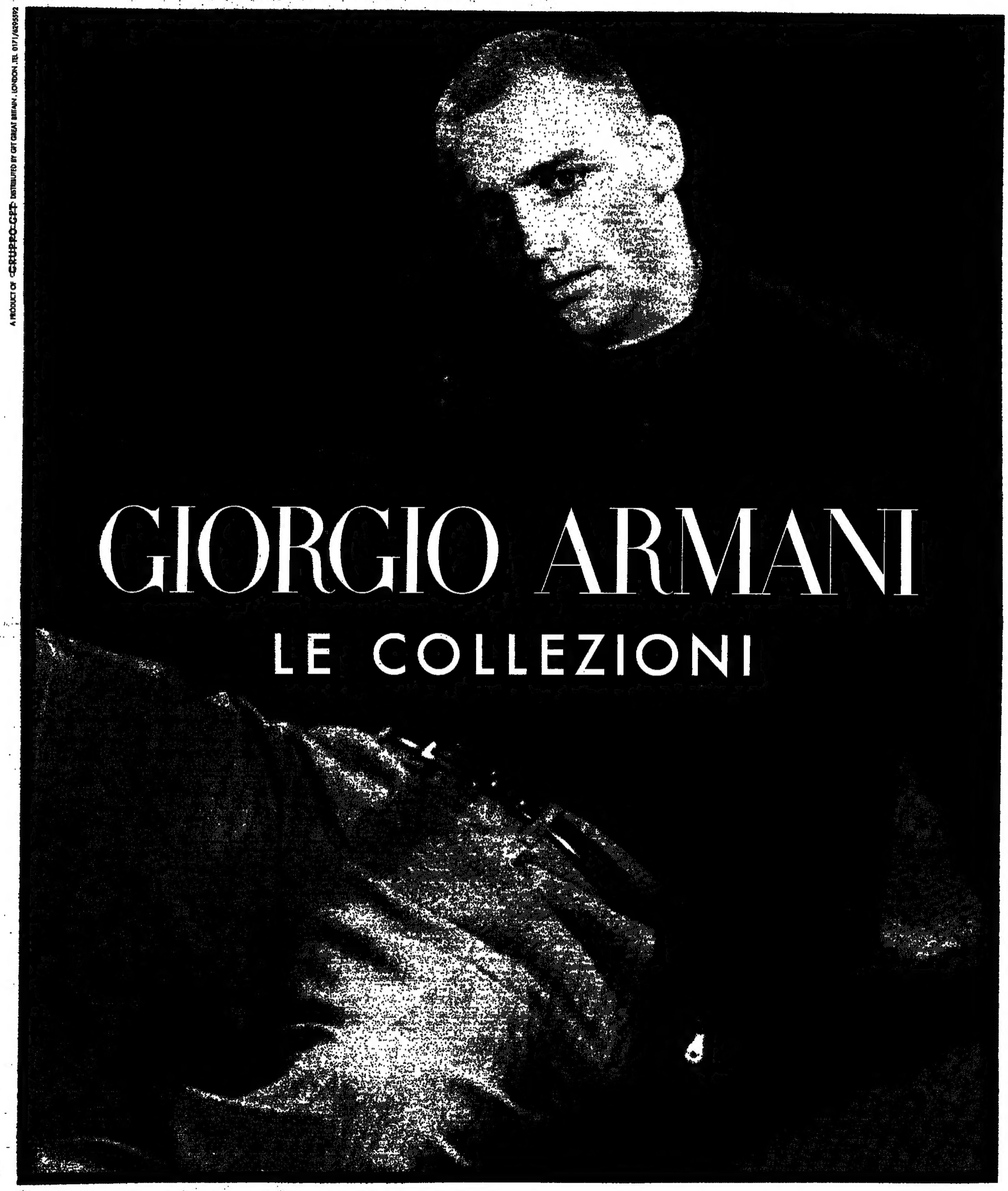


EU compromise on food labelling

By Michael Smith in Brussels

The European Commission yesterday bowed to pressure from European Union countries and agreed that genetically modified food will only have to be labelled when its presence is proven.

The EU executive dropped its requirement that foods should carry "may contain" labels when it is uncertain if they include genetically modified organisms. Although the Commission had the authority to impose its own system it would have had to have done so in the face of opposition from all EU countries except Denmark, Sweden and Italy, and from the European parliament.

Its concession cleared the way for countries to adopt final proposals on the labelling of genetically modified maize and soya, probably on Monday at a meeting of farm ministers. The proposals are expected to set a precedent for other so-called "novel foods" such as those with a modified molecular structure.

Even after the changes, the compromise package is viewed with suspicion in the US, where most of the genetically modified maize and soya originates. It is strongly opposed by Beuc, an organisation representing European consumer groups, and by the Greenpeace environmental group.

While some US companies and Greenpeace welcomed the shelving of the "may contain" labels, they are unhappy with the testing methods proposed by the Commission and accepted by EU nations.

Under the EU's procedures, foods would be tested for the presence of DNA or protein resulting from genetic modification to find if it remained equivalent to an existing food in composition and nutritional value. Labelling would be required if the tests showed differences.

The US government is among those questioning the scientific validity of the tests. It believes labelling is unnecessary and does not require it in the US.

Greenpeace and Beuc have lobbied for a system which requires manufacturers at each stage of the food processing system to declare whether their products are genetically modified.

This would require segregation of genetically modified crops from conventional crops and was rejected by the EU as too bureaucratic.

Greenpeace said yesterday the EU's compromise proposals would mean more than 90 per cent of products containing GMOs would not need to carry labels. This is partly because the proposed regulation does not apply to food additives, making up small percentages of final products, or to flavourings.

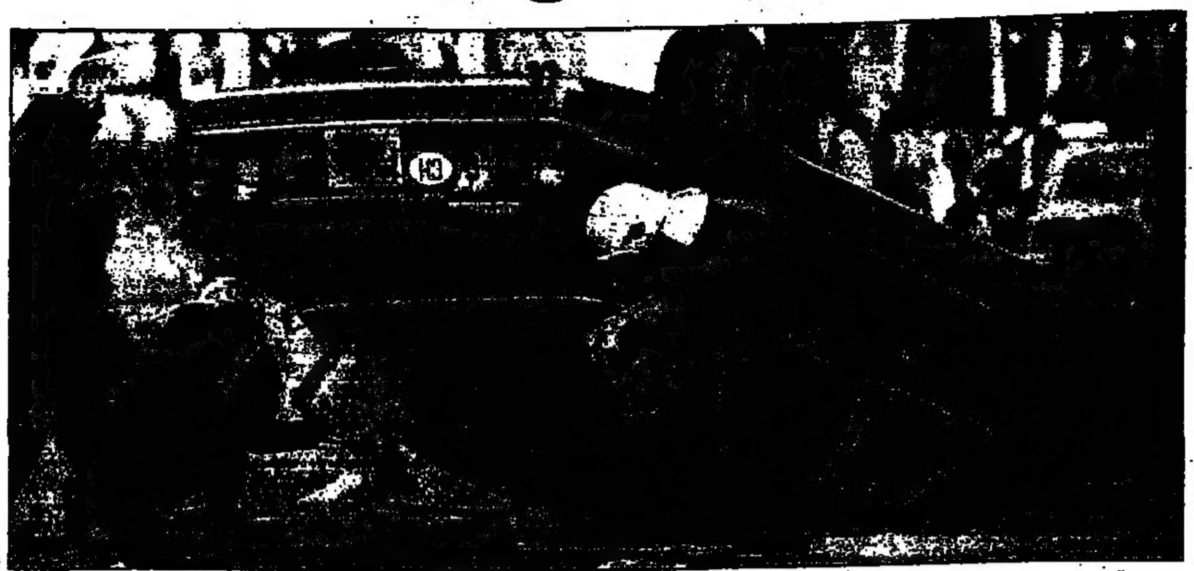
The compromise, brokered by the UK government which holds the rotating presidency of the EU, also make provision for a list of products be drawn up for exemption from testing where it is known they do not contain GMOs.

In addition it proposes a threshold for the detection of DNA or protein, below which labelling would not be required.

Both the list and the threshold will be determined by the Commission and member countries in further discussions.

Trade round bandwagon starts to roll

By Guy de Jonquières and Frances Williams in Geneva



Police used tear gas overnight on Tuesday to break up rioters in Geneva seeking to disrupt the WTO summit. The disturbances followed a demonstration on Saturday, above, in which 2,000 people took part and caused several thousand dollars worth of damage. Reuters

Ministers from more than 130 countries yesterday gave the green light to intensive preparations for the launch next year of wide-ranging talks on global trade liberalisation, which could develop into a full-scale trade round.

They also agreed, after a three-day meeting in Geneva marked by repeated mass demonstrations against free trade, to try to make the World Trade Organisation more transparent and improve public understanding of the benefits of open global markets.

Charlene Barshefsky, US trade representative, who will chair preparations for the planned negotiations, said the greatest threat to the world trade system was "a failure of public trust in the system and suspicion of organisations that are secretive and non-transparent".

She said mistrust of globalisation among US workers was not a temporary phenomenon, but represented a lasting and fundamental change, with which all governments would have to grapple.

Ministers will decide the scope and duration of the negotiations at their next meeting, in the US late next year. They said in a joint declaration that the talks could be expanded beyond the WTO's existing commitments to start negotiations on agriculture next year and on services in 2000.

Although WTO members still differ over priorities for the planned talks, this week saw growing convergence on the need for an ambitious agenda. Renato Ruggiero, WTO chief, said there was broad agreement on the need for comprehensive negotiations, which should not drag on too long.

Calls by the European Union for a "millennium round", to start in 2000, were backed by many eastern European countries, Australia, several Latin American states, Japan and a few other east Asian countries.

Although the US is still cautious about a full-blown round, President Bill Clinton made clear to the WTO this week that his government no longer flatly opposed the idea. But Ms Barshefsky stressed yesterday that rapid liberalisation of farm trade remained the highest US priority.

Developing countries, most of which have been lukewarm about another big liberalisation push, were urged by President Nelson Mandela of South Africa this week to "give leadership to the development of a positive agenda" which met their economic interests.

Mr Ruggiero wants industrialised economies to abolish tariffs on the poorest countries' exports – a proposal backed this week by Tony Blair, Britain's prime minister.

More contentious issues over the next 18 months will be EU demands for global negotiations on rules for foreign direct investment and competition policy, and US efforts to involve environmental and other pressure groups more closely in the WTO's activities.

Bonn clouds transport aircraft plans

By Alexander Nicoll, Defence Correspondent, in London

The prospect that a military transport aircraft could be developed by the European Airbus consortium was clouded yesterday when Germany made clear its intention to study an alternative based on the Russo-Ukrainian Antonov-70.

At a meeting in Berlin, officials from the seven countries which may purchase the so-called Future Large Aircraft (FLA) agreed the Airbus aircraft could not be based on the An-70.

Airbus told governments it would not take on a project involving the An-70, which it believes could not be sufficiently reliable and would have excessively high maintenance costs.

The officials' decision permits Airbus to proceed with developing the aircraft to its own designs, and could thus mark a step forward for the FLA, seen by governments as a potential plank of their effort to build a consolidated European defence industry to compete with US rivals.

However, although Germany apparently concurred in the decision, Volker Rühe, its defence minister, has not abandoned his desire to pursue the An-70 and is asking Daimler-Benz Aerospace (Dasa) to study the aircraft.

This puts Dasa in an awkward position as an Airbus consortium member which must also pay close attention to the wishes of its main customer, the German government.

If Germany and any other countries – Britain, France, Italy, Spain, Belgium and Turkey are the others involved – opted to buy a version of the An-70, the FLA as a commercial prospect would be undermined, perhaps fatally.

The FLA, which is only at the design stage, is in any case in doubt because of strong competition from US aircraft already on the market such as the C-130J of Lockheed Martin and Boeing's larger C-17.

The UK ministry of defence, which urgently needs to order transport aircraft, is expected this summer to invite proposals from the two US companies – proposals from Airbus have already been requested. It said it could entertain a bid based on the An-70 provided it had a western prime contractor and was based on commercial principles.

Airbus partners say neither US rival meets the European requirements set by the air forces of the seven potential purchasers. The C-17, though more than large enough, is a jet aircraft which is less able to land in difficult terrains – a contention disputed by Boeing.

Polish yard wins $400m order

By Christopher Bobinski in Warsaw

Poland's Gdynia shipyard has won an order to build six liquid gas carriers against competition from Korean shipbuilders such as Hyundai and Daewoo in a deal worth almost $400m signed in Oslo yesterday with Bergesen, a Norwegian shipowner.

The order, for two 60,000dwt gas carriers worth $63m each and an option to build four more, marks the first time in 15 years that Bergesen, which has 120 vessels built mostly in the Far East, has ordered a gas carrier in Europe.

The ships will be the first gas carriers to be built by Gdynia since the 1970s and the deal shows the improved financial standing of the yard which showed a profit last year for the first time since 1990.

The Gdynia price for the ships is thought to be higher than that offered by the South Koreans but the Polish yard was able to accept better payment terms. Bergesen will be paying 40 per cent of the contract price during the construction of the vessels while the remaining 60 per cent will be paid on delivery.

Airline alliances verdict by mid-June

By Samer Iskandar in Brussels

Karel Van Miert, the European Union's competition commissioner, said yesterday he was likely to reach a decision on planned airline alliances by the middle of next month.

The Commission is investigating the effects on competition of several planned alliances, including one between British Airways and American Airlines, and another involving Lufthansa, of Germany, Scandinavian Airline System and United Airlines, of the US.

"We are not far from a decision," he said. "Considerable progress has been made."

However, Mr Van Miert warned: "The devil lies in the details."

The Commission will simultaneously announce its decisions concerning the two alliances, although the BA-AA case was more advanced.

The Commission is likely to order the airlines give up take-off and landing slots in exchange for approval of their alliances.

Yesterday, Mr Van Miert reiterated his opposition to the sale of such slots, which he insists will have to be given up.

Push through tobacco bill, urges Clinton

By Mark Suzman in Washington

President Bill Clinton yesterday pressed Congress to move quickly on the proposed national tobacco settlement being debated in the Senate, but the legislation remained bogged down by disputes ranging from the amount cigarette prices should be raised to what should happen to subsidies for tobacco farmers.

In his clearest endorsement of the legislation so far, Mr Clinton used a carefully staged White House event with 1,400 children to warn that tobacco was the "greatest public health threat" facing young Americans.

"This bill is our best chance to protect the health of our children, to keep them from getting hooked on cigarettes," he said.

"It is a good strong bill. Congress should pass it and pass it now."

But despite Mr Clinton's urging, it seemed increasingly likely that a final vote on the controversial legislation would be delayed until after the Senate returned from next week's Memorial Day recess as agreements on a number of crucial amendments proved elusive.

John McCain, the principal sponsor of the bill, said that while he had never "firmly expected" debate to be completed this week, he remained optimistic that the outstanding problems could be resolved in time.

However, Don Nickles, the majority whip and an outspoken opponent of the proposals, said he thought a final vote this week was now highly unlikely.

The biggest disagreement so far has focused on protections for tobacco farmers who would be hit by the legislation.

The bill contains a $28bn package to help farmers which is broadly supported by the White House.

However, Republicans are backing an alternative $18.5bn measure which would provide more money up front, but would also phase out the complex price support system for tobacco that the government currently oversees, potentially leading to a sharp drop in tobacco prices.

Further unresolved disagreements include the scale and pace of cigarette prices rises and proposed provisions to limit the liability of tobacco companies.

Although the bill calls for a $1.10 rise per pack over 5 years, some senators want a much tougher $1.50 increase over three years.

Following discussions with the White House, Mr McCain has also agreed to propose an increase in the annual liability cap on damages the industry can be required to pay out from $6.5bn to $8bn while also raising the maximum financial penalties on tobacco companies if they fail to reduce underage smoking to $4bn from $3.5bn.

That is still not enough for many legislators, though, and a further amendment on whether to strip the bill of all liability protections is also due to be debated.

Nevertheless, one contentious issue was resolved on Tuesday night when an amendment on whether to limit the lawyers' fees for the settlement was defeated. Many trial lawyers who helped bring suits against the tobacco industry stand to make hundreds of millions of dollars in contingency fees if the legislation is approved.

President Bill Clinton and Vice President Al Gore walk with local schoolchildren to the White House South Lawn yesterday. The shirts read: 'Tobacco legislation now' AP

New York SE may be trading places

By John Labate in New York

The signs haven't been posted yet, and New York City officials are scrambling to close a deal that could keep the New York Stock Exchange on Wall Street. But the world's largest stock exchange remains on the brink of deciding whether to vacate one of capitalism's more solemn landmarks, the famous Corinthian-columned building that has been its home for nearly 100 years.

Despite $1bn in technology investments in the past decade, the NYSE building lacks perhaps the most precious commodity to the hundreds of traders and specialists who busily ply their trade there every day: space.

"It's not a crisis for the company listings, but it is an ongoing crisis for the mechanics who actually have to turn the nuts and bolts on the trading floor," said Bob Seijas, co-president of the Specialists Association, which represents the watchdogs who oversee trading.

With the Exchange eager to expand its number of domestic and non-US listings in coming years, it has little choice but to add to its existing trading space or find a new building.

But after two years of talks with city officials to annexe more space, the NYSE has little to show for its efforts.

However negotiations are still continuing between the mayor's office and nearby property owners.

At least one of the property owners seems to be unwilling to go without a fight, though. Negotiations and possible legal action could chew up years in the courts, placing the Exchange in an even tighter squeeze.

Earlier this month New York's neighbour to the west, New Jersey, pushed into the negotiating spotlight with a package of incentives to lure the NYSE to the Garden State. The Exchange welcomed the competitive bid in its latest round of brinksmanship with Mr Giuliani.

Should the NYSE decide to relocate its entire operations, the leading choices are r w a site across town, in Battery Park City, or across the Hudson, in Jersey City. But few really believe the Exchange would make such a drastic relocation to New Jersey.

Any move off Wall Street would break a long tradition. In 1792 a group of 24 commodity and stock traders agreed what has become known as the Buttonwood Agreement, an anti-monopoly compact signed beneath a nearby Buttonwood tree. The New York Stock & Exchange Board was later formed in 1817, meeting in a rented room at 40 Wall Street. In 1863 the Board changed its name to the New York Stock Exchange, building its own headquarters two years later. On the same site in 1903 the Exchange's current building opened for business.

Who could buy such a lavish trading operation, marble walls, gilded ceiling and all? By coincidence, the second-largest US stock market, Nasdaq, has said it is considering moving at least some of its operations to New York from Washington DC. Should it feel the need to be downtown the NYSE may have a future buyer.

NEWS DIGEST

POSSIBILITY OF $1.6BN STANDBY LOAN

IMF approves 'shadow' accord with Venezuela

The International Monetary Fund has approved a "shadow agreement" with Venezuela, boosting the government's credibility in an attempt to combat the bleakness of investor prospects. Under the agreement, struck late on Tuesday after nearly a year of faltering negotiations, the IMF will monitor the government's economic programme but will not disburse any credits.

"IMF management supports Venezuela's efforts and believes that the authorities have formulated a suitable economic programme, which will be monitored by IMF staff," the IMF said in a press release. The government's economic targets include a 28 per cent year-end inflation rate, a 2.5 per cent budget deficit and a 3 per cent gross domestic proct growth rate.

Some investment bankers familiar with the deal said the IMF was holding out the possibility of formalising a stand-by loan of up to $1.6bn later in the year, if Venezuela shows progress in meeting its current objectives.

The agreement could signal a turnaround in investor sentiment towards Venezuela, where economic prospects have been clouded by recent uncertainty over low oil prices and the outcome of December's presidential elections.

"In the present context of negative sentiment towards Venezuela, it could help generate a more positive feeling," said Peter West, chief analyst at BBV Latinvest, an investment bank, in London. **Raymond Colitt, Caracas**

CANADIAN TRADE BALANCE

Mild winter damages exports

Canada's merchandise trade surplus dipped to C$1.6bn (US$1.13bn) in March as mild weather and the Asian crisis hurt exports of energy, agricultural goods and metals.

The C$300m decline from February's surplus was primarily due to a 19 per cent drop in energy exports, an 8 per cent decline in agricultural and fish products, and a 5 per cent fall in aluminium exports. These were partially offset, however, by continued strong growth in exports of automotive products, which rose 4 per cent in March.

Exports to Japan continued to fall, dropping 33 per cent from the first three months of 1997 as Japanese purchases of lumber, nickel and aluminium declined. Imports also fell 1.2 per cent from February to March, led by a 4 per cent drop in machinery and equipment imports and a 13 per cent drop in energy imports.

Analysts said the weaker trade performance would continue to put pressure on the Canadian dollar, which fell below 69 US cents in mid-day trading. Canada's current account deficit last year was C$17bn, and the poor trade performance is likely to increase that deficit this year. **Edward Alden, Toronto**

MEXICAN ECONOMY

GDP growth at 6.6%

When finance executives from a group of multinational companies in Mexico recently asked each other over breakfast how their sales performance had been this year, the high numbers caused some almost to choke on their coffee. The impression was borne out when Mexico announced this week a 6.6 per cent rise in first quarter gross domestic product, a sign that the economy had continued the strong pace set last year in spite of two budget cutbacks to offset slumping world oil prices.

The growth was stronger than many economists had expected, partly because a late Easter meant there were three more working days in March than in the same month last year. But the figure also included a 6 per cent decline in the farm sector because of drought, which economists said might mask a higher underlying growth rate.

The resistance of the economy to fiscal and monetary tightening in the first quarter as Mexico sought to limit the vulnerability of the budget to low oil prices has come as a surprise to many. **Henry Tricks, Mexico City**

PANAMSAT SWIVELS

Satellite glitch shocks America

The US got a brief glimpse yesterday of what life would be like without modern telecommunications: a place where pagers don't bleep, data feeds dry up and TV signals fade into the ether. The disruption began late on Tuesday when a communications satellite operated by PanAmSat swivelled in its orbit, breaking the downlinks that carried voice and data signals back to earth.

Communications companies that relied on the satellite began the process yesterday of switching their traffic to alternative satellites, and most predicted a return to normal service for most of their customers by last night.

Visitors to the web site of Charles Schwab, one of the most successful retail stockbrokers on the internet, were greeted with day-old share prices – though the company said regular customers, with a password, could see pages displaying up-to-date prices that were supplied through a separate feed. **Richard Waters, New York**

RECESSION IMPORTS ALSO PLUNGE, HIGHLIGHTING WEAKNESS OF DOMESTIC DEMAND AND INCREASING POLITICALLY SENSITIVE TRADE SURPLUS

Japanese exports down as sales to rest of Asia fall 18%

By Paul Abrahams and Gillian Tett in Tokyo

Japanese exports dropped in April for the first time for almost three years after sales to the rest of Asia plunged by 18 per cent.

The decline suggests that turmoil in much of Asia is now starting to hurt the Japanese economy, which is technically in recession. Last year exports were almost the only sector of the Japanese economy that showed growth.

Imports into Japan also dropped sharply in April, highlighting the weakness of domestic demand. This left Japan's politically sensitive trade surplus up 52.6 per cent in April, compared with the same period last year.

The overall surplus was Y1,232bn ($9bn), marginally above expectations. The surplus with Europe jumped 59 per cent and that with the US 29 per cent. However, the surplus with Asia fell 28 per cent.

Exports fell by 1.7 per cent, the first fall since July 1995. This was largely because of the drop in exports to Asia. Sales to Korea fell 41 per cent, Thailand 48 per cent, Indonesia 53 per cent and Malaysia 31 per cent. Exports to the US rose just 7.4 per cent and those to Europe 16.2 per cent.

The dire state of the domestic economy was underlined by the 13.8 per cent fall in imports. However, the scale of the decline was exaggerated by weak oil prices, which were 38 per cent lower. HSBC James Capel estimates that a quarter of the increase in the surplus was caused by these falling oil prices.

Further confirmation of the economy's shaky condition was given by the ministry of international trade and industry, which said industrial production in March, fell a revised 2.3 per cent year-on-year. It predicted a further fall in April of 1.8 per cent, before a rise of 0.6 per cent this month. However, the ministry warned output remained on a declining trend.

Separately, the Federation of Electric Power Companies said consumption in April by large-lot consumers had fallen 1.8 per cent year-on-year.

The economic gloom in the corporate sector is being made worse by tighter lending by the banks. The Bank of Japan yesterday said that bank loans had fallen by 3.3 per cent in the year to March, a record fall.

Lending to smaller companies was badly hit, dropping 3.9 per cent. By sector, textiles and steel showed striking declines. Loans for capital investment fell particularly sharply, dropping 10.3 per cent among large manufacturers, and 4.3 per cent among medium-sized groups.

Many banks were trying to reduce assets before the end of the fiscal year on March 31 to meet capital adequacy standards that were tightened this year as part of the "Big Bang" reforms.

This tighter lending has, in turn, triggered a wave of bankruptcies. These rose 26 per cent in the year to April, according to figures released by Teikoku, a research group, earlier this week.

Economists and credit rating agencies warn the squeeze will continue. Akio Mikuni, head of the Mikuni credit rating agency, for example, now forecasts that there will be up to Y15,000bn in bankruptcies this year.

Companies try to stem losses in Indonesia

By Michiyo Nakamoto in Tokyo

Japanese companies are reviewing their operations in Indonesia in an effort to stem widening losses because of the crisis in the country.

Marubeni has postponed the expansion of a $1.9bn ethylene plant in Chandra Asri, western Java, jointly owned with Indonesian investors. Mitsubishi Corporation says the decline in the Indonesian market has seen sales slump by Y80bn ($586m) in the year to March. An electric power generation plant in which it had planned to take about a one-third stake, has had to be postponed.

Itochu and Nissho Iwai, two trading companies, have also been faced with the postponement of a petrochemical plant in which they each have taken a 5 per cent stake each. Indonesia's Tirtamas group has a 70 per cent stake in PT Trans-Pacific Petrochemical Indotama, the $3.1bn petrochemical plant in eastern Java, while Thailand's Siam Cement owns 20 per cent.

Sumitomo, Mitsui, Tomen and Nichimen have also invested jointly with British Petroleum and the local Salim group in a petrochemical plant which has also been postponed.

Japanese trading companies are exposed in broadly two ways. First, the cost of servicing loans taken on by their Indonesian subsidiaries in foreign currencies, mostly the US dollar, has become more onerous as the rupiah continues its slide. Marubeni, for example, is taking an extraordinary loss to cover such additional funds.

Second, the downturn in local demand, has kept factories idle and inventories piling up. Everything from entire plants, such as petrochemical plants, to motor vehicle parts, are affected.

The downturn has serious implications as Japan is Indonesia's largest export market, and the country from which it imports the most. Exports to Indonesia from Japan were down 53 per cent in April alone, and imports to Japan from Indonesia were down 34 per cent, according to the latest government statistics.

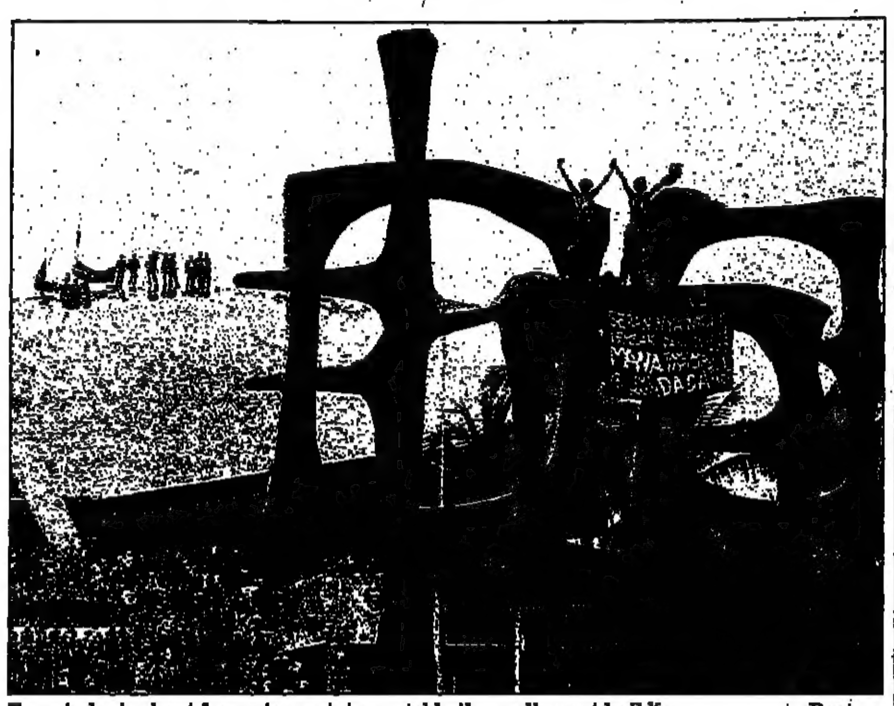
Asia, excluding Japan, makes up less than 10 or 15 per cent of Japanese trading companies' earnings, says Matt Aizawa, industry analyst at Merrill Lynch in Tokyo.

"The problem is that local companies cannot buy the parts they need from abroad, to make the finished products," either because they are too expensive or cannot get the funds to purchase them, says Katsuaki Shibata, director of the Jakarta Centre for the Japan External Trade Organisation.

DEMONSTRATIONS MARCH ON PALACE THWARTED BUT PRESSURE STILL ON SUHARTO

Army takes grip on Jakarta

By John Ridding and Sander Thoenes in Jakarta



Two students shout from atop a statue outside the parliament building Reuters

Indonesia's army took a tight grip on Jakarta yesterday, buttressing the position of President Suharto and thwarting a planned march on his palace by protestors demanding his resignation.

But demonstrations by more than 10,000 students at the national parliament and larger rallies at Yogyakarta and other Indonesian cities underlined the pressures on Mr Suharto, who is facing the gravest challenge to his 32-year rule.

In a further blow to Mr Suharto, the parliamentary faction of Indonesia's ruling party said it wanted a special session of the People's Constitutional Assembly – the top constitutional body – to convene and for Mr Suharto to resign.

Yesterday's planned rallies had been viewed as a test of opposition to Mr Suharto's regime and had raised fears of renewed civil unrest after rioting and looting left more than 500 dead in Jakarta last week. But tight security and Mr Suharto's offer this week to stand down early after implementing political reforms, appear to have averted confrontation. By yesterday evening many of the army roadblocks in Jakarta had been removed.

Amien Rais, a Moslem opposition leader, cancelled a planned mass rally, citing fears of violence. But addressing students at the parliament yesterday he predicted Mr Suharto would soon be forced to step down. "Suharto is counting the days," he said.

Diplomats said yesterday's peaceful protests had improved the immediate prospects for stability. However, they cautioned that the country's deepening economic crisis could provide triggers for further unrest.

"Everything depends on whether Suharto is serious about political reform and whether he can arrest the collapse in the economy," said one diplomat. "International investors and the International Monetary Fund are going to want to see some specifics about his reform timetable before their confidence can be restored."

While political opponents are seeking an immediate session of the People's Consultative Assembly to replace Mr Suharto, the Indonesian leader has proposed a potentially lengthy process. According to his plan, parliamentary elections would be held after new electoral laws have been drawn up. This parliament, along with 500 appointed members would form a new consultative assembly which would elect a new president. Mr Suharto said he would not stand.

A spokesman for the president said Mr Suharto's programme would begin today with the formation of a committee for political reform. "The first priority is to discuss the plans for the election and come up with a schedule which is rational and realistic," said Saadillah Mursjid, state secretary.

Foreign governments, including the US and Australia, urged Mr Suharto to move as quickly as possible with reforms.

South Korea to buy banks' bad debts

By John Burton in Seoul

The South Korean government yesterday said it would recapitalise troubled banks and buy their bad debt in a "final" effort to save the tottering sector from collapsing under Won118,000bn ($82bn) in sour loans.

The plan amounts to a de facto nationalisation of large swathes of the banking sector and is likely to lead to consolidation among the nation's 26 commercial banks.

The government will inject Won41,000bn into the banking sector through bonds issued to the banks in exchange for debt and direct equity stakes. The bonds would be issued by the two state-run agencies, the Korea Deposit Insurance Corporation and the Korea Asset Management Corporation.

The KAMC, a state resolution fund similar to the one set up in the US to rescue the savings and loans banks, will buy Won50,000bn in non-performing loans at a 50 per cent discount of Won25,000bn to clean up balance sheets, while the KDIC will make direct injections of Won16,000bn from a bond issue for recapitalisation. The KAMC will later sell assets acquired from the banks to recoup investments.

The KDIC will also make a Won9,000bn public bond issue for improved depositor protection.

Of the planned Won50,000bn bond issue, the finance ministry said that Won40,000bn would be issued during the second half of this year with the remainder to be offered next year.

The banks are expected to cover Won50,000bn of bad loans by either selling collateral or calling in loans, which could trigger a new round of bankruptcies among Korea's debt-heavy conglomerates, or *chaebol*.

The plan could severely erode the capital base of Korea's biggest banks as they are forced to write off bad debts, which could lead to closure or government-supervised mergers.

The financial supervisory board is reviewing the prospects of 12 banks that failed to meet the Bank for International Settlements' capital adequacy ratio of 8 per cent last year and a decision on their future is expected by the end of June.

Two other banks, Korea First and SeoulBank, have already been nationalised and will be offered for sale to foreign investors by the end of November.

Kang Bong-kyun, senior presidential economic adviser, said there was no guarantee that all the banks would be saved once the review process was completed. "We are prepared to allow some to fail."

The bank reform plan received a cautious response from foreign observers. "The government had little alternative to nationalising most of the banking sector since it was unlikely that foreign banks would provided needed funds through equity investments," said one UK banker.

● Hyundai Motor, Korea's largest carmaker, yesterday confirmed it plans to sack 18 per cent of its 45,000 workforce in the first mass redundancies among Korea's big conglomerates.

BAD DEBT INDONESIAN WOES COULD FURTHER UNDERMINE HEALTH OF TOKYO'S BANKS

Japanese raise loan provisions

By Gillian Tett in Tokyo

Japanese banks are poised to raise provisions for bad loans to Indonesia when they announce their annual results tomorrow, banking officials say.

Bank of Tokyo-Mitsubishi (BTM) and Sumitomo Bank are expected to unveil about Y30bn ($223m) in new Indonesian provisions, raising their loan-loss coverage to between 5 and 10 per cent.

However, analysts warn such provisions are inadequate. Japanese banks hold 39 per cent of private sector loans to Indonesia and groups such as BTM, Sanwa, Sakura and Industrial Bank of Japan (IBJ) are estimated each to have exposures of between $2bn and $4bn.

Concern is growing that Indonesia's problems could further undermine the health of the Japanese banking sector, particularly if the problems spill over into the rest of the Asian region.

This week, Moody's, the US credit rating agency, said that risky Asian lending was one factor behind a recent rating review of Sumitomo Bank, BTM and IBJ.

"For several large Japanese banks, East Asian portfolios represent about 100 per cent of their Tier 1 capital and more than three times their pre-provisions earnings... These exposures dwarf those of other banking systems," said Moody's.

James Fiorillo of ING Barings agrees: "While our initial major bank estimate for Asian related non-performing loans was Y3,000bn we now believe the actual amount could be double that."

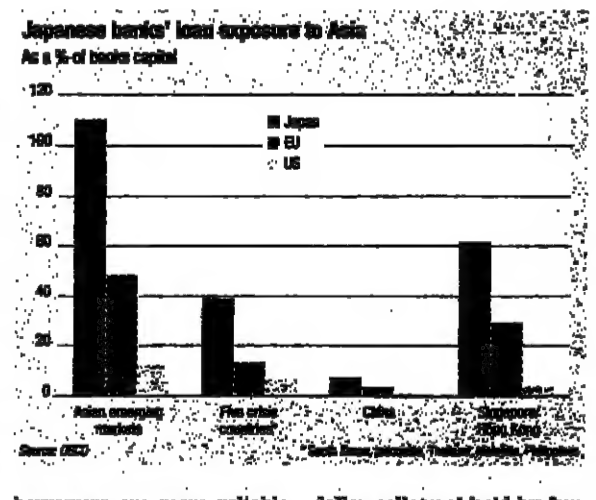
He adds: "Most Japanese banks have loan-loss reserves equivalent to only 4 to 5 per cent of total lending to cover these claims, whereas some US and European banks have already written off 15 per cent of loans outstanding to the region."

Some analysts point out that even Y6,000bn is minuscule compared with the overall Japanese banking system. Japan's top 19 banks, for example, have total loans of some Y382,505bn ($2,800bn). But lending to Indonesia is a mere $23bn, while lending to Asia as a whole is $271.4bn, according to Bank for International Settlements data.

Furthermore, Japanese banks insist only a small proportion of Asian loans will turn bad, even in Indonesia. They say much of their lending is to Japanese subsidiaries operating in Indonesia: for BTM, for example, 45 per cent of its publicly announced $3.2bn Indonesian exposure is to Japanese groups.

And bankers argue that the remaining Indonesian borrowers are more reliable than most because the Japanese lenders generally entered Indonesia before their US and European counterparts. Furthermore, many "Indonesian" loans have been made to ethnic Chinese families, and are backed by dollar collateral held by family members outside Indonesia, bankers say.

However, even "reliable" Indonesian companies are becoming risky investments – particularly if they are closely related to the Suharto family.



Malaysia to buy up bad loans

By Sheila McNulty in Singapore

Anwar Ibrahim, Malaysia's finance minister and deputy prime minister, yesterday announced the setting-up of an asset management company to buy the non-performing loans and assets of troubled financial institutions.

He said the aim of the company, which would be similar to the resolution trust fund set up in the US to rescue the savings and loans banks, was to enable the country's financial institutions to resume lending, in an attempt to revitalise business and hasten economic recovery.

Bank lending has slowed dramatically as the banking crisis has intensified. Bank Negara, the central bank, is working on the details with international consultants; these will be announced in two weeks.

Malaysia's financial sector went into the regional crisis burdened by domestic loans at 170 per cent of gross domestic product, the highest in south-east Asia.

As the economy has slowed, economists have predicted almost one in four loans will eventually be unpaid. The government is forecasting a sharp fall in growth to 2-3 per cent this year, from 7.8 per cent last year.

Mr Anwar said the company would be funded through private, including foreign, sources and operate independently of the government.

"The market will be quite pleased," said Lai Tak Heong, research director at SG Securities in Malaysia. Investors would interpret Mr Anwar's announcement as a sign the authorities were starting to be pro-active in confronting the crisis.

Pakistan disarray on tests

By Farhan Bokhari in Islamabad

Pakistan was yesterday in the grip of growing uncertainty over its response to nuclear tests by India, as share prices fell to a record low and hawks demanded swift retaliation.

Concerns over tough US economic sanctions as the price for a nuclear test sent the Karachi stock exchange index tumbling. If sanctions are imposed, the US would be mandated to vote against loans from international institutions such as the IMF, the World Bank and the Asian Development Bank.

Pakistan is in the middle of a three-year $1.6bn IMF programme. The money is barely enough to meet more than a $2bn trade deficit and a current account deficit at least twice that size, but the credibility of the Fund's support is vital.

Shares on the Karachi stock market plummeted to a 55-month low. "The uncertainty over the future is killing the market," said Hina Akhlaq, senior analyst at ABN Amro First capital securities.

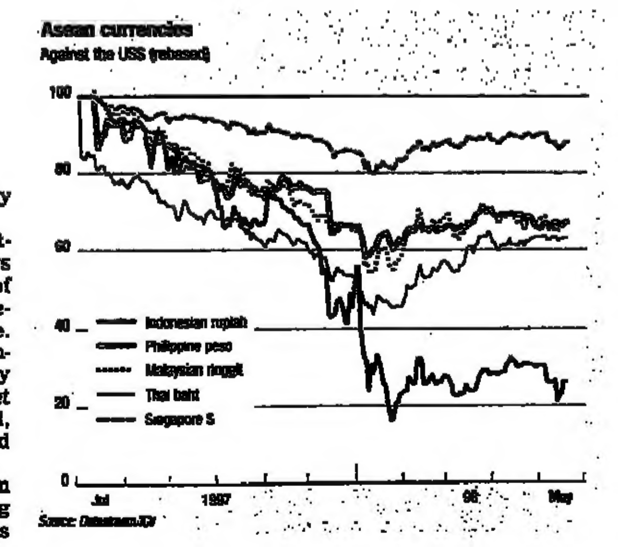
The return of Shamshad Ahmad, Pakistan's foreign secretary, from a three-day visit to China added to speculation Islamabad was close to pressing ahead with a test.

"There was a complete identity of views between Pakistan and China on the gravity of the situation resulting from India's reckless actions," said Mr Ahmad. "Our consultations with China are an important facet of our wider consultations with all major powers."

Pakistan sees China as its staunchest ally. Beijing has provided Pakistan with conventional arms after US military and economic aid was suspended.

Flames from Indonesian furnace start to singe neighbours

The economic and political meltdown in Jakarta is affecting other nations in south-east Asia, report **Ted Bardacke** in Bangkok, **Sheila McNulty** in Singapore and **Justin Marozzi** in Manila



As Indonesia went up in flames last week, Barry Halpern, president-director of Aetna Life Indonesia, took refuge in Singapore.

His arrival was warmly welcomed by the Hyatt Regency Hotel, which had seen occupancy rates fall to around 70 per cent in recent months. Jakarta's riots pushed occupancy rates to the high 80s.

"It's a reprieve," said Daniel Ong, the Hyatt's director of rooms. Taxi drivers, restaurants and shops also feel it. But analysts warn such gains will be shortlived.

Indeed, Mr Halpern is hoping to return to Jakarta tomorrow. And the downside that Indonesia's deepening crisis has brought Singapore and its neighbours will be felt long after he is gone.

Thus began a renewed pull out of regional currencies and stocks. The closer a country is to Indonesia, the worse it has fared in recent days. The currency of Singapore, which is just 20 kilometres away, has virtually been tracking the rupiah.

"The negatives far outweigh the positives," says Peter Hames, director of Aberdeen Asset Management Asia in Singapore. While the city-state's economy is fundamentally strong, its domestic market has just 3m people and, therefore, has long depended upon outsiders for growth.

Much of it has come from wealthy Indonesians buying property and patronising its shopping malls, restaurants, airline and even its hospitals. Singapore does not publish how much trade it does with Indonesia but analysts believe it is significant.

So, even though the Indonesians and expatriates fleeing Jakarta are bringing much-needed business to Singapore and, to a smaller extent Malaysia, Mr Ong acknowledges that the region would be better served if Indonesia stabilised.

"Uncertainty breeds volatility," says Daragh Maher, economist at ING Barings in Singapore. Analysts predict that will characterise regional markets for the foreseeable future.

Some suspect Singapore banks could be forced to increase provisions to cover their loan exposure to Indonesia. And analysts believe this latest instability will slow shipping containers into that country, with those going in paying more for war-risk type insurance.

Increased piracy in the waters around Indonesia is likely. "You are going to get more people looking for a quick buck," said Richard Stokes, director of regional marine research at Indosuez W.I. Carr Securities in Singapore.

Analysts say there had already been such a shortage of containers going into Indonesia that warehouses were filled with goods they could not find a way to export. "It's going to slow down the economy even more," Mr Stokes said.

In Thailand rice and sugar exporters have stopped accepting orders from Indonesia unless they are paid for, up front, in cash.

Many companies which had plans to invest in Indonesia are inclined to delay negotiations until it becomes clear who the next leader will be and what policies will be put in place. Some may even decide to invest elsewhere in the region.

"While we hope that Indonesia, which is our partner in Asean, can settle its domestic problems soon, we welcome investors looking at the Philippines as an alternative," said Melito Salazar, managing director of the Philippines' Board of Investments. Asean, the Association of South-East Asian Nations, is the region's top diplomatic club.

Singapore and Malaysia are the closest members to Indonesia, however, and, therefore, much too preoccupied by fears of a new tide of illegal Indonesian immigrants to be chasing relocating investors. Both countries have been monitoring their borders and cracking down on those aiding illegal immigrants.

Malaysia's coastline is longer and easier to penetrate so it has been inundated by thousands of Indonesians. It has been deporting them by the boatload and pledged to keep up the momentum, despite the rioting. Kuala Lumpur has no work for the immigrants, as its own economy is slowing, and fears they will turn to crime.

Thailand is further away and, therefore, the fallout from the latest upheaval has been limited, in much the same way it has ever since investors started praising Bangkok for strict adherence to International Monetary Fund discipline without prompting Indonesian-style social chaos.

But although the baht has remained rock solid in recent days, Thailand's hopes to issue a global bond worth as much as $1.5bn – a key step to reviving economic growth – have been set back. Spreads on nearly all emerging market bonds jumped in recent days, with Thailand's Yankee bond rising 40 basis points.

"Investor appetite for new issues is really drying up," says one investment banker. "That's got everything to do with Indonesia and nothing to do with Thailand – or Poland for that matter."

Thailand is also concerned about Asean's future, says a senior foreign ministry official. Its inability to help guide a peaceful political transition in Indonesia once more points to Asean's inability to deal constructively with a political crisis.

Tough penalties for ex-MGAM men

By Jane Martinson, Investment Correspondent

Imro, the fund management watchdog, suspended four former employees of Morgan Grenfell Asset Management yesterday for their role in the Peter Young unit trust scandal.

The actions, which include the first lifetime ban for an officer, add about £1.4m ($2.3m) to the total costs of the case for Deutsche Bank, the German parent of Morgan Grenfell.

The bank was fined £2m and paid another £1m in fees last year for its failure to prevent Mr Young, a top-performing manager, from breaching investment guidelines in a trust held by some 180,000 investors.

Deutsche agreed to pay the legal costs of the men when they were sacked on a year's notice in October 1996. It estimated these costs at about £50,000 each at the time. Yesterday's decision includes Imro costs of about £200,000 for each individual. A further £150,000 has been spent on legal fees.

Imro said yesterday the suspensions acted as a warning to fund management executives.

Michael Wheatley, the 46-year-old former compliance officer at MGAM, received the stiffest penalty.

Mr Wheatley is forbidden from holding a compliance position again, the most severe penalty Imro has imposed on an individual. He also received a three-year suspension from registration.

Glyn Owen, former chief executive of Morgan Grenfell's international operations, Paul Ebling, former deputy of compliance, and Graham Kane, head of the unit trust, were suspended for periods between 16 months and three years.

All four were charged with a failure to ensure compliance with unit trust rules, for failing to see that full documentation was in place, and for failing to inform Imro of irregularities.

Imro said: "A combination of position, responsibility and knowledge meant that their responses were inadequate." However, the investigation found no case of dishonesty or a lack of integrity.

The suspensions take effect from last December. Imro said it had taken into account the time between the men leaving Morgan Grenfell and their subsequent suspension when setting the time periods. The three men, the youngest of whom is in his 30s, are expected to return to the City once the suspensions are over.

The case against Keith Percy, the chief executive of Morgan Grenfell, has still to be agreed. If Mr Percy, who now acts as a consultant to SocGen Asset Management, refuses to accept any future Imro charges he can go to a tribunal.

However, Deutsche has ruled out continued legal backing and the costs of a tribunal could add up to more than £500,000 and last at least a year.

The Serious Fraud Office is still investigating the case against Mr Young.

BSE EU COMMISSIONER BACKS END OF BAN

Beef exports set to resume next month

By Michael Smith in Brussels and Maggie Urry in London

Exports of beef from the UK seem certain to resume on June 1 following moves in Brussels this week to end the two-year ban on overseas sales.

Approval would apply initially to exports from Northern Ireland, but carries symbolic importance for the entire UK beef industry.

Franz Fischler, European Union farm commissioner, is recommending that his fellow commissioners support the June 1 date after the so-called certified herds scheme was approved by the standing veterinary committee this week.

The scheme would allow exports of beef from herds certified to be free of BSE – "mad cow disease" – where the animal's history has been tracked on a computer database. Northern Ireland is the only part of the UK with such a tracing system.

Exporters said, however, that the strength of sterling and possible continuing consumer resistance to British beef mean it could take several years to regain former levels of sale.

David Rutledge, chief executive of the Livestock and Meat Commission in Belfast, said exports from Northern Ireland were about £300m ($500m) a year before the ban. The commission's target was to recover half the sales by volume within three years.

But the strength of sterling since the ban was imposed has cut beef prices by about 30 per cent. "Technically we will be able to export," he said. "But commercially it's going to be hard work." The commission plans a "relaunch event" in Brussels within two or three weeks of the ban being lifted.

Craig Dumigan, business development manager at Granville Meat, one of two companies planning to start exporting beef, said export sales would be "an unknown quantity" until the market had reopened. Granville had maintained contacts with former customers throughout the two-year ban, and was optimistic about renewing sales to them.

Ian Gardiner, policy director of the National Farmers' Union of England and Wales, said Brussels officials had undertaken to make progress on a second export plan once the Northern Ireland scheme had taken effect.

This would allow the export of meat from animals born after August 1996, the date when contaminated feed, thought to be the source of the infection, was removed from farms. EU farm ministers will consider this in the next two months.

The UK beef industry was devastated in March 1996 when the EU banned worldwide exports, amounting to more than £500m a year, after the government announced there could be a link between BSE in cattle and a new form of CJD, the deadly human brain disease.

● A House of Commons committee called for emergency aid to Welsh livestock farmers yesterday in a report which said the industry was "in crisis". The Welsh affairs committee said that farmers in the region were suffering more than elsewhere in the UK: "For many Welsh farmers the situation is desperate."

Many farmers suspected supermarket chains were "profiteering at their expense, though this is denied by the retailers".

Northern Ireland chief minister Mo Mowlam and Virgin chairman Richard Branson yesterday campaigned jointly in the city of Belfast for a Yes vote in tomorrow's peace referendum. On his third visit to the region in as many weeks, Tony Blair, the UK prime minister, made a pledge against violence to win round wavering unionists who feel the proposed deal offers too many concessions to nationalists. Editorial comment, Page 13 Reuters

Policy paper on worker rights to be issued today

By Robert Peston and Robert Taylor

The government will today announce the biggest extension of employee rights and trade union opportunities in a quarter of a century, reversing the trend of legislation in the years under Margaret Thatcher, former Conservative prime minister.

A controversial Fairness at Work policy paper, which will be published today after lengthy delays, will give all employees the right to be represented by a trade union official in a "disciplinary or grievance" procedure.

Legal protection against unfair dismissal will also be extended to millions of workers by cutting the qualifying period of employment from two years to one. In spite of earlier fears that the package would prompt the sharpest criticism from trade unionists – disappointed at rules on union recognition in the workplace – it is now likely that more serious anti-government reaction will come from employer organisations and companies.

"This paper will show that the government is not so friendly to business after all," said Ruth Lea, policy director of the Institute of Directors. It plans to work with other employer bodies to push for modifications. "We are very aggrieved and seriously disappointed," added Ms Lea.

A union leader said the white paper was "a big step forward for us" and that a "big price" had been extracted for losing an important argument over union recognition rules.

The biggest breakthrough for the trade union movement is that every employee in every company, no matter how big or small, will have the right to be represented by a union official over a "grievance or disciplinary" matter. "There is no company in the land which will be able to keep us out," said a union leader.

EU split in biggest opposition party broadens

By George Parker, Political Correspondent

William Hague, leader of the opposition Conservative party, yesterday declared war on his party's pro-Europeans. He labelled Michael Heseltine, the former deputy prime minister, as "unwilling to listen and hopelessly out of touch".

Mr Hague made clear he has no intention of watering down his Eurosceptic stance, which he set out in a powerful speech in France on Tuesday.

Instead, he intends to confront his critics, of whom Mr Heseltine is regarded as the most potent and outspoken, by portraying them as "dinosaurs".

Mr Heseltine yesterday renewed his attack on Mr Hague, claiming that his policies would alienate many of the floating voters the party desperately needs to win back.

He said Mr Hague's speech was more extreme than those made by Margaret Thatcher when she was Conservative prime minister.

Mr Hague believes that his view of Europe is in the ascendancy in the party, and that Mr Heseltine and Kenneth Clarke, the former chancellor of the exchequer, are speaking for a small and diminishing faction.

Yesterday pro-Europeans were planning their revenge. One Conservative MP said Mr Hague's speech was "a declaration of war" and that "it read like an undergraduate essay".

It is thought that they will be publishing a series of pamphlets in the coming months, setting out how they believe the party should be preparing for the reality of the single currency.

NEWS DIGEST

COMPUTER SERVICES

French IT group to recruit 2,500 staff for UK venture

The buoyant state of the computer services market was underlined yesterday when Cap Gemini, the French information technology group, said it was seeking to recruit 2,500 extra staff for its UK business. The company said the move, which would be a 30 per cent increase on its present number of employees, was a reflection of the strong demand for IT services from UK companies.

Profits last year from Cap Gemini's UK business, announced yesterday, rose 49 per cent to £37.9m ($63.3m) while its order book broke the £1bn mark for the first time. Sales increased 20 per cent to £410m. Demand is being driven by companies seeking to install new computer systems to improve the competitiveness of their businesses. The introduction of the euro is also beginning to generate IT-related business. **Christopher Price, London**

SAUDI ARABIA MURDER TRIAL

King Fahd releases nurses

The imminent release of two British nurses jailed for murder in Saudi Arabia was yesterday seen as a public relations move by King Fahd and a gesture of goodwill towards Tony Blair, the UK prime minister, at very little cost to the Saudi ruler.

Robin Cook, the foreign secretary, suggested King Fahd's "generous humanitarian act" was partly a reward for the UK Labour government's efforts to improve relations with Arab states. King Fahd on Tuesday commuted the sentences of Deborah Parry and Lucille McLauchlan to the 1½ years already served in prison. The two nurses had been imprisoned on charges of murdering an Australian colleague in Dhahran in 1996.

The king's move followed Mr Blair's Middle East trip last month, during which he raised the issue. The case had threatened to spark a diplomatic row with Saudi Arabia, just as the British government was mending relations with the kingdom over the presence in the UK of a Saudi dissident who infuriated Saudi rulers. **Roula Khalaf and David Wighton, London**

TELEPHONE PRICING POLICY

Watchdog warns industry

Britain's newly appointed telecommunications watchdog yesterday savaged telephone companies' pricing policies in an attack underlining his role as consumers' champion. Giving his first public speech since being appointed Oftel director general, David Edmonds made clear that he had lost patience with the complexity and obscurity of tariffs published by operators of fixed and mobile phone services.

He warned he would act unless the industry made efforts to simplify its pricing structures and make it easier for customers to compare one operator with another. **Alan Cane, London**

PRICE FIXING BAN

Order on electrical goods

The government yesterday finally moved to abolish price fixing on electrical goods almost a year after it backed the findings of a two-year Monopolies and Mergers Commission inquiry.

Margaret Beckett, chief industry minister, issued an order under the Fair Trade Act which will make it illegal from September to recommend retail prices on such goods to retailers. It will also be illegal for suppliers to discriminate against discount retailers. **Peggy Hollinger, London**
London Stocks, Page 34

ACCOUNTANCY JOURNALISM

FT writer honoured

Jim Kelly, Accountancy Correspondent of the Financial Times, was yesterday named accountancy journalist of the year in the annual awards sponsored by the ACCA – the Association of Chartered Certified Accountants. Jon Bunn, news editor of Accountancy Age, was named professional press writer of the year.

Profits at banks 'soon to decline'

By George Graham, Banking Editor

The Bank of England yesterday delivered a farewell warning to the banks it has supervised for 20 years by saying that their profits must be about to drop.

In its last report on banking supervision before handing over its duties to the Financial Services Authority, the Bank warned that lending terms for management buy-outs and commercial property were showing signs of loosening.

"It is hard to identify any area where prospects look better now than they did a year ago," said Michael Foot, executive director at the Bank, who will move to the FSA as managing director in charge of financial supervision.

With fierce competition from new entrants in the credit card and mortgage markets, profits in these areas could also be driven down.

But after several years of strong profits, banks were in very good shape to weather a downturn, the report said. Moreover, banks were not showing the sort of spendthrift lending behaviour that led to trouble in the past.

As a group, the large UK banks made combined pre-tax profits of £11.1bn ($18.5bn) last year, up 5 per cent from 1996. Post-tax return on equity improved to 20.8 per cent from 20.4 per cent in 1996, but remained below the peak of 21 per cent recorded in 1995.

The Bank said aggregate net interest rate margins narrowed to 2.72 per cent from 2.74 per cent in 1996, despite the helpful effect of five base rate increases on their interest-free deposit base and despite a shift in lending to higher margin unsecured personal loans.

Costs remained static, with falling staff numbers offsetting increased spending on IT systems. Bad debt provisions rose only slightly to an aggregate £1.9bn, equivalent to 0.39 per cent of total lending.

The report said that UK banks' exposure to the problems of south-east Asia remained relatively modest. However, supervisors expressed greater concern about Asian-owned banks with operations in London.

"As collapsing exchange rates and increasing domestic interest rates began to affect the quality of the banks' loan portfolios, their capital (which may already have been weak) was further impaired and their liquidity tightened."

The Bank said it imposed "certain informal restrictions" last year on the activities of several banks, many of which were "upon banks with exposures to regions affected by economic turbulence". Mr Foot refused to comment, however, on whether these restrictions specifically affected Asian banks.

Attraction of inward investment starts to fade

Clamour grows for switch to home-grown regeneration of vulnerable regions, Juliette Jowit and James Buxton report

When Ron Davies, chief minister for Wales, pledged last week that local businesses would take priority over inward investors, he was responding to a debate which has echoes in Scotland and implications for English regions.

Many face the same issue: as investment from Asia falters and competition from eastern Europe grows, the next phase of regeneration may have to be driven by home-grown companies.

The debate in Wales is sharp because in spite of success in attracting investors from outside the UK, it still has some of the worst unemployment blackspots and below-average wages.

John Ball, an economist at Swansea Business School in south-west Wales, claims past policy has made Wales dependent on low-skill, low-wage jobs. Compared with more than £40,000 ($67,000) a job granted in subsidy to the Korean electronics company LG, he believes indigenous investment could generate more high-quality jobs for £2,000-£3,000 each.

Agencies in Wales have countered criticisms with statements of support for indigenous companies. Alan Morgan, the Welsh Development Agency's director of business development in charge of the £9m budget for local services, denies there has been neglect but says more is being done.

Some argue that, with only 7.7 per cent of the workforce employed by non-UK companies, the figures are still disproportionate. But what really distorts the picture is grants. Compared with aid packages such as the £247m for LG, the figures attracted by indigenous businesses hardly register.

Brian Willott, WDA chief executive, says it is unfair to compare one-off projects with continuing small-scale support for local companies. In the past year, he says, the business development division helped 1,500 Welsh companies win a record £43m of business, as well as £161m in potential contracts.

In Scotland, there was anger among the workforce last week when Lite-On, the Taiwanese manufacturer of computer monitors, announced it was making 230 of its 350 employees redundant at Mossend in central Scotland.

The plant opened a year ago and Lite-On had talked of 1,000 jobs within two years. It re-opened debate on whether inward investment was as stable a foundation for the economy as locally-based companies.

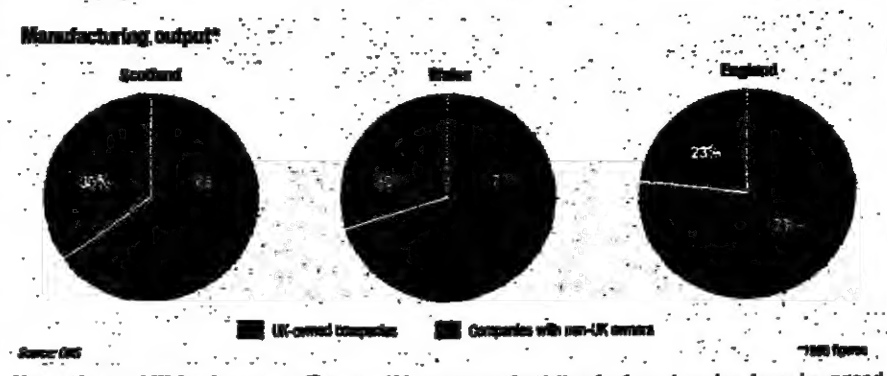
With Korea's Hyundai putting on hold its semiconductor plant in Scotland, and Mitsubishi Electric closing its television plant there, supporters of inward investment have become defensive. Brian Wilson, Scottish industry minister, caustically attacked "the fair-weather friends of inward investment policy".

In spite of setbacks, announcements about plans for factories with non-UK owners continue, the two most recent being from Taiwanese companies. About 80,000 people work for non-UK-owned manufacturing companies – 4 per cent of the total workforce and 28 per cent of all manufacturing staff.

Scottish Enterprise, the development agency, is in a difficult position when people complain about the supposed deficiencies of inward investment. Ministers find it "nifty," as Crawford Beveridge, chief executive, put it, to announce projects creating hundreds of jobs. But only 15 per cent of its £475m budget is spent on inward investors compared with 40-50 per cent on indigenous companies.

The big spending on inward investors is made by the UK government's Scottish Industry Department. In the five years to 1996 it handed out £460m in regional selective assistance. Of this, £210m went to local companies. Mr Wilson said he would welcome more grant applications: "Sadly, it is a myth that there is a long queue of frustrated indigenous companies being denied support."

Additional reporting by Brian Groom



Above: the west Wales factory of US group 3M, where productivity of a foam tape has been increased. Below: sources of UK manufacturing output Wales News & Pictures

London's colleges seek more overseas students

By Simon Targett, Education Correspondent

London's elite "ivy league" universities yesterday launched a joint marketing venture with other colleges in the capital to boost the city's share of the international market for students from outside the UK and the domestic market for research contracts.

The London School of Economics and King's College London – in the top 10 of the Financial Times's survey of Britain's best universities – have set up a promotional body with 14 other institutions including the "new" universities of East London, Greenwich and Westminster.

The initiative, which is backed by business, signals a new spirit of collaboration after years of rivalry. The new body, Learning in London, is to run under the auspices of London First, the business campaign group which boasts 300 corporate members including Barclays Bank, British Airways, British Telecommunications and Ernst & Young. The work of the group has taken on a new urgency following the Asian financial crisis, which is expected to hit student recruitment this year.

New research published by the group shows that London attracts 45,000 overseas students – 15 per cent of London's student body and around 20 per cent of all the UK's students from other countries. There are plans to boost the number of students taking masters' and doctoral degrees especially in core specialities such as law, economics, social and political science, and engineering and technology.

John Edmundson, director of the marketing group, said the role of the LSE and the old university colleges was crucial, giving the project "respectability".

Frank Gould, vice-chancellor of the University of East London, said an earlier attempt to link up, when vice-chancellors met once a term to discuss common problems, "got nowhere". He said the new venture showed London's need to market itself as it faced growing competition from big European and US cities.

The marketing group has still to persuade Imperial College and University College, London's two largest institutions, to sign. Mr Edmundson said they were hesitating because they felt "less universities of London and more universities who happen to be in London".

Rover prepares to boost output

By John Griffiths in London

The Rover group, owned by BMW, is starting to recruit 1,000 production workers to work on the executive saloon, code-named R40, which will replace its 600 and 800 ranges.

Much of the R40's output will be exported, with Germany expected to take more units than previous Rover executive models.

The car will also launch a renewed sales drive in Latin America.

Rover is investing £400m in the R40, its first new car since the company was taken over by BMW four years ago. The car will be unveiled at the International Motor Show near Birmingham in October.

Rover is creating the capacity to build 150,000 cars a year at Cowley near Oxford – almost double the plant's combined output of the 600 and 800 models at their respective peaks.

The extra jobs will take Rover's workforce over the 40,000 mark for the first time in nine years.

Rover has spent £250m to create a "factory within a factory" at Cowley to build the R40.

The Cowley facility, and the engineering of the vehicle, reflect manufacturing and quality standards introduced by BMW.

Nevertheless the new car "will represent the modern face of Rover and the excellence of British design", said Walter Hasselkus, Rover's chairman and chief executive.

هكذا من الأصل

CINEMA

Messing about with the blues

Redundant sequel: John Landis's 'The Blues Brothers 2000' is to be avoided by those with fond memories of the orginal

The Blues Brothers opened in 1980 to generally unfavourable reviews and a poor commercial showing. In the early days of video, it had certain key ingredients that helped it shift from the status of a damp box-office squib to become a modern cult classic. The screenplay was just this side of chaotic, with occasional bons mots and one famous knockout speech which concludes "...It's dark and we're wearing sunglasses. Hit it!"

There were two central low-life characters with their iconic and easily imitable dress, played by Dan Aykroyd and John Belushi, then the hottest comic actor in America. Perhaps most important of all was the superb soundtrack performed by Aretha Franklin, Ray Charles and James Brown among others. Aykroyd and Belushi shared their characters' enthusiasm on their mission to restore black music to its rightful place at the heart of American popular culture. All this was played out against a frenetic background of conspicuous budgetary excess, with endless car-chases, explosions and absurdly over-blown pile-ups.

Eighteen years on, the dire *The Blues Brothers 2000* is not so much a belated as a redundant sequel. It is dedicated to Belushi, Cab Calloway and John Candy, three stars of the original who had the good sense to die before having to appear in this messy film. Belushi has certainly never been more keenly missed than here, and is replaced by not one but three new brothers: another fat man (John Goodman), a black man (Joe Morton) and, in an unforgivably sentimental touch, a kid (J. Evan Bonifant). This suggests that Aykroyd and co-writer/director John Landis just couldn't make up their minds which option to go for, and chose all three. They have also opted for the modern, playing-safe version of the sequel – the virtual re-make. So they have rounded up as many of the original cast as possible and replicated *The Blues Brothers* almost scene-for-scene. To make up for the film's shortcomings, many famous musicians have been recruited, and some of the musical set-pieces are rather good – notably Sam Moore's gospel song and James Brown's version of "Please, Please, Please". But none of these is enough to justify a visit, especially by those who have fond memories of the original.

★

Director Tom DiCillo made a promising debut with *Johnny Suede* but by his third effort, *Box of Moonlight*, his trademark quirkiness was looking a little strained. With his new film, *The Real Blonde*, he has gone off the tracks altogether. Joe (Matthew Modine), and Mary (DiCillo regular Catherine Keener), are an urban couple in their thirties who have been together for six years and don't know whether they are fully committed to one another. Joe is a struggling actor, Mary a successful make-up artist in the fashion world. This film clearly owes a lot to the work of Robert Altman in its ensemble cast (Buck Henry, Kathleen Turner, Christopher Lloyd, Denis Leary) and interweaving plot strands. Unfortunately it most closely resembles Altman's dismal *Prêt-à-Porter* in its lame and unnecessary satire on both the fashion and entertainment industries. Among the running gags are scenes from the soap opera *Passion Crest*, featuring Bob (Maxwell Caulfield) and Kelly (Daryl Hannah). That DiCillo asked these two wooden performers to act deliberately badly in this programme-within-the-film is suggestive of a courageous, if not particularly astute, director.

THE BLUES BROTHERS 2000
John Landis

THE REAL BLONDE
Tom DiCillo

SALUT COUSIN!
Merzak Allouche

GUY
Michael Lindsay-Hogg

Anyone expecting *Salut Cousin!* to shed some light on Algerians at home and in exile in France will be disappointed by this film, which ends up saying very little. Alilo (Gad Elmaleh) is a bumbling young man who arrives in Paris on a working visit from Algiers. He has lost the address of the man from whom he is collecting a suitcase so, speaking only awkward, comical French, he seeks shelter from his cousin Mok (Mess Hattou). Mok is a near-delusional fantasist, Alilo an innocent dreamer and, through their dull picaresque adventures the film makes trite observations on racism, love and the desperation of the dispossessed. The proceedings are lent an incidental lighter touch by the eccentric sub-titles.

★

Guy at least opens rather well. Various pedestrians at an LA cross-roads stop and stare into the roving hand-held camera. It is a *Naked City* idea, suggesting that the film could be about anyone on whom the camera alights. It transpires that the camera is being wielded by a nameless female documentary film-maker and the subject for her new, highly intrusive film is Guy Dade (Vincent D'Onofrio). Guy, a specialist car-dealer, initially reluctant, soon becomes obsessed with both camera and director. This must have seemed such an enticing project in preparation. Dealing with the meatily cinematic subject of dangerous, erotic voyeurism, this is a first screenplay by Kirby Dick, responsible for the remarkable documentary *Sick*, and directed by the Beatles' occasional collaborator, Michael Lindsay-Hogg. But the film is pretentious and laughable almost from the beginning. At one stage Guy protests: "It's ridiculous! Why would anyone want to see a film about me?" This is a question that the film crucially fails to address.

The makers of *Star Kid* signal their cine-literacy early on when the sympathetic high-school science teacher introduces the film's hero, 12-year-old Spencer (Joseph Mazzello) to her pet spider, Leo G. He is named after Leo G. Carroll, the star of the classic B-horror movie *Tarantula*, and this is just the first of a simple tale's many cinematic borrowings and references. The main inspiration is *ET*, as lonely Spencer forms a bond with an intelligent, seven-foot tall Cyborsuit from the planet Trelkis, which he wears in order to ward off an alien assault. This is reasonably brisk and should have enough inventiveness to keep the pre-teens amused.

Karl French

MUSIC THE KIROV ORCHESTRA

Pure magic from a busy maestro

The tireless Valery Gergiev is the Puck among modern conductors. Single-handedly, he has "put a girdle round about the earth" taking up conducting posts, founding festivals, setting up residencies from St. Petersburg to San Francisco, from Mikkeli in Finland to Eilat in Israel, via Rotterdam, New York, the Caucasus, and on to China and South America.

Somewhere in this manic itinerary he found time to give a concert this week at the Royal Festival Hall with the Kirov Orchestra and Chorus. From early in his career Gergiev has been keen to forge links with London, first starting up joint productions between the Kirov Opera and the Royal Opera House, and later finding a slot for himself in London's complex orchestral scene at the Royal Philharmonic – a liaison which did not work out on either side and soon fell apart.

Impatient to keep live wires in every city, he is back. The news is that Gergiev has switched his allegiance to the Philharmonia and is embarking on a five-year project to present mini-festivals in May each year which will bring together his new London friends, the Kirov orchestra from St. Petersburg, and (occasionally) the Rotterdam Philharmonic Orchestra, of which he is also principal conductor. This is on top of his new position at the Metropolitan Opera in New York and his other existing commitments. It beggars belief that still further musical organisations are said to be chasing his services.

At least, for Tuesday's concert with his own Kirov Orchestra, there must have been an opportunity at some point for conductor and players to get to know the music together. Following the Royal Opera's *La rondine* the night before, here we again had the concert of the recording, as the Kirov performed the same music as on their new CD for Philips – Scriabin's *Prometheus* and Stravinsky's complete 1910 *Firebird*, with just the Act 3 Prelude to Wagner's *Die Meistersinger* as an extra.

The Scriabin, rarely performed, is an extravagant and not wholly convincing tone poem, which wallows in luxuriant orchestral colours. The composer was quite specific about what colours those were and it seemed to me that the soft-textured Kirov sound was particularly good for his mauves, blues and browns, where the lower strings came into their own.

Somewhere in his manic itinerary Gergiev found time to give a concert in London this week

Gergiev's performance of the Stravinsky was at the opposite extreme to the modernist one Esa-Pekka Salonen gave with the Philharmonia at the Edinburgh Festival a few years ago. It is somehow fitting that Gergiev should see the music in the romantic vein that looks back to its Russian origins in the fairy-tale scores of Tchaikovsky and Rimsky-Korsakov. Maybe he did not obtain the same precision playing (not enough time for rehearsal?) but there was much fantasy and a heady expressive freedom in the performance. And the hushed lead-in to the final dance, where the audience hardly dared breathe, was pure magic.

Richard Fairman

Third dimension to minimalist music

OPERA

STEPHEN PETTITT

Monsters of Grace
Barbican Theatre

One goes to a performance of any music by Philip Glass expecting to be bored by its repetitious banality after about three minutes. Likewise, one also anticipates from Robert Wilson a staging of great, deliberate, if often baffling beauty.

But Glass's and Wilson's latest collaboration, *Monsters of Grace*, offered as the opening gambit of the Barbican International Theatre Event, had something else. Billed as a "new digital opera in three dimensions" – what opera isn't in three dimensions? – the work takes the form of a sequence of 14 abstract, apparently unrelated scenarios.

Half of them are acted in a curiously touching slow motion ceremonial live on stage – a boy walking slowly towards a tardis-like tent, a woman gently rippling the surface of water in a tank. The other half are represented by 3D, computer-generated filmed images, for which we in the audience had to don fifties-style polarised spectacles.

We saw scenes, some more visually effective than others, of a giant hand being pricked and cut, of a polar bear being caressed, of a metamorphosing still life scene (the snake that appeared on the table was about the only monster to be sighted in the entire work), of a dream-like landscape with helicopters and a representation of the Great Wall of China.

All of this to a bland, over-amplified, bass-heavy accompaniment, played by the Philip Glass Ensemble under Michael Riesman, which embodies settings of the 13th-century mystic poet Jalaluddin Rumi, sung in very unmystic 20th-century English translation (the responsibility of Coleman Barks) by a solo vocal quartet.

According to the show's producer Jedediah Wheeler, this is 21st-century theatre. I hope and believe not. Mixing live and recorded media – even recorded media of the technological sophistication demonstrated here – just for the sake of it represents no dramatic advance.

In practice this alternation of media proved an annoyance. I could not have been the only member of the audience who left the theatre with a headache, and I trust I was not alone in feeling that the evening only reinforced my view that Glass's brand of minimalism, though initially intriguing, is all surface and no substance, its enduring popularity down more to commerce than to artistic merit.

A good-time show which fails the brazen seduction test

MUSICAL

IAN SHUTTLEWORTH

Sweet Charity
Victoria Palace, London SW1

The audiences at West End musical opening nights so want to be wowed, bless them. So, in the opening minutes of *Sweet Charity* on Tuesday, their responses seemed to run: "Hey, these girls can stand on a revolve without falling over" – wild applause! "Hey, it's Bonnie Langford's bum" – wild applause! "Hey, her lover's just pushed her into Central Park Lake" – applause just that worrying bit *too* wild...

Langford carries a huge burden as the ever-sanguine dance hall hostess in this revival of Bob Fosse's musical, and no-one can be more conscious than she of the cruel stigma of simply being Bonnie Langford, and of being her for so long: not really mutton dressed as lamb (despite sporting facial makeup of an almost Garland/Minnelli-like thickness), she is more lamb which has spent an age in the window display.

She has energy, discipline and far more than her fair share of talent – anyone who can execute a routine such as that for "I'm A Brass Band" and then slip effortlessly back into song is blessed with both ability and peak physical condition – but all those years as the postbox-smiling little girl have left their mark, and at root she finds herself unable to move too far from this mode.

Sure, she has Charity Hope Valentine's starry-eyed, bouncy indefatigability down pat, but Charity is also tempting and alluring; when her neurotic new beau Oscar (Cornell John), met in a trapped lift, describes her as a "poetical virgin", it must seem the height of delusion.

But Langford – for all that she wiggles her equatorial and southern regions at us, for all that she tries brazen seduction on ageing Latin heart-throb Vittorio (Mark Wynter) – cannot come over as remotely sinful.

This problem affects the show as a whole. To put it bluntly, one should not be able to watch so much of Bob Fosse's choreography without feeling at all embarrassingly aroused. Chet Walker has a fine company make all the right moves with impressive vigour and precision, but not even the taxi-dancers' flaunting of themselves in "Big Spender" (a number which ought to combine sheer desperation with efficient enticement) begins to register.

It is an admirable show – Cy Coleman's songs and Neil Simon's book alone would see to that – but, for all Walker's and director Carol Metcalfe's efforts, for all that Johanne Murdock and (particularly) Jane Fowler match Langford for energy, it is not at all as seductive as it should be. This is a good-time show, sure enough, but not with the doubleness of entendre that the "Big Spender" girls want us to believe.

Starry-eyed but not remotely sinful: Bonnie Langford as Charity Alastair Muir

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Tosca: by Puccini. New production by Nikolaus Lehnhoff with a cast including Bryn Terfel. The conductor is Riccardo Chailly; May 22

BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Bernard Haitink in works by Bartók and Brahms. With soloist András Schiff; May 23, 24, 25

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
● Il Ritorno d'Ulisse: by Monteverdi. New production conducted by Philippe Pierlot in a staging by William Kentridge. With the Handspring Puppet Company, at the Lunatheater; May 22
● L'Orfeo: by Monteverdi. New production conducted by René Jacobs and directed and choreographed by Trisha Brown, with designs by Roland Aeschlimann; May 21, 22, 23

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in Beethoven's Symphonies Nos. 3 and 4; May 22, 23
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in a concert performance of Fidelio. With the Chicago Symphony Chorus; May 26

EXHIBITION
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Songs on Stone: James McNeill Whistler and the Art of Lithography. Around 200 works by the American expatriate, including drawings, etchings and paintings, which demonstrate the importance of lithography to his art and theory; to Aug 30, then transferring to Ottawa

FLORENCE

OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiofiorentino.com
● Le Comte Ory: by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo Mariani; ETI-Teatro della Pergola; May 21, 23
● Wozzeck: by Berg. New production by William Friedkin, conducted by Zubin Mehta; Teatro Comunale; May 26

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Così Fan Tutte: by Mozart. New production by Graham Vick, conducted by Andrew Davis. Cast includes Alan Opie and Barbara Frittoli. With the London Philharmonic Orchestra; May 21, 24
● Káťa Kabanová: by Janáček. Revival of Nikolaus Lehnhoff's production, conducted by Yakov Kreizberg, with designs by Tobias Hoheisel. Cast includes Amanda Roocroft. With the London Philharmonic Orchestra; May 23, 26

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4090 2211
The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg; May 21, 23, 25

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
The Royal Opera: Die ägyptische Helena, by Strauss. Concert performance, conducted by Christian Thielemann. Cast includes Deborah Voigt and Thomas Moser; May 22, 26

EXHIBITION
Tate Gallery
Tel: 44-171-887 8000
Per Kirkeby (b.1938): continuing the series of contemporary sculpture displays, this exhibition includes paintings, sculptures and a specially constructed brick structure by the Danish artist; to May 26

LOS ANGELES

CONCERT
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
City of Birmingham Symphony Orchestra: Sir Simon Rattle conducts works by Knussen and Mahler; May 21

MUNICH

CONCERT
Philharmonie Gasteig
Tel: 49-89-5481 8181
Ivo Pogorelich: recital by the pianist of works by Rachmaninov, Granados, Prokofiev and Chopin; May 25

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
The Midsummer Marriage: by Michael Tippett. Mark Elder conducts a production staged by Richard Jones, with a cast including Alison Hagley and Philip Langridge; May 22

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
New York Philharmonic: conducted by Kurt Masur in Shostakovich's Symphony No. 7, "Leningrad"; Avery Fisher Hall; May 21, 22, 23

EXHIBITIONS
Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
Visions of Paris: Robert Delaunay's Series. Previously seen in Berlin, this exhibition focuses on the series paintings made by the artist in Paris, of subjects including Saint-Séverin and the Eiffel Tower; to May 24

Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Augustin Pajou, Royal Sculptor: first retrospective devoted to works by the French sculptor (1730-1809), successful in the French Royal Academy of Painting and Sculpture and a favourite of Louis XV and Louis XVI. Includes marble statues, portrait busts, terracotta sketch-models, and drawings including designs for the opera at Versailles; to May 24

Pierpont Morgan Library
Tel: 1-212-685 0008
a.k.a. Lewis Carroll: display of memorabilia marking the centenary of the death of Charles L. Dodgson (1832-1898), mathematician, photographer, and author of Alice in Wonderland; to Aug 30

THEATRE
Brooklyn Academy of Music
Tel: 1-718-636 4100
The Royal Shakespeare Company presents a two-week season featuring five productions. Matthew Warchus's production of Hamlet opens tonight, with Alex Jennings in the title role. Krapp's Last Tape, by Samuel Beckett, opens next week, as does Shakespeare's Henry VIII. Everyman and Cymbeline follow the week after

PARIS

CONCERT
Théâtre des Champs Elysées
Tel: 33-1-49525050
Vienna Philharmonic Orchestra: conducted by Seiji Ozawa in works by Brahms and Stravinsky; May 26

ROTTERDAM

EXHIBITION
Kunsthal
Tel: 31-10-440 0300
Look at me: Fashion and Photography in Britain 1960 to the present. First stop for a touring exhibition which tracks the development of fashion photography with its emphasis firmly on popular culture rather than haute couture; to Aug 9

VENICE

EXHIBITION
Palazzo Grassi
Tel: 39-41-523 1680
www.palazzograssi.it
Picasso: 1917-1924. Beginning with works inspired by his designs for the theatre and the Commedia dell'Arte, this display also picks up the return to classicism which coincided with Picasso's first visit to Italy in 1917; to Jun 28

VIENNA

EXHIBITION
Kunstforum der Bank Austria
Tel: 43-1-533 2266
From Monet to Picasso: display of 120 works, starting with French Impressionism and ending in 1945; to Jun 28

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
Cleveland Orchestra: conducted by Dohnányi in works by Bartók, R. Strauss and Dvorák; May 21

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

Shadows close in on the puppeteer

Domestic and international pressures on the Indonesian president are growing, writes **Sander Thoenes**

The streets of the Indonesian capital were comparatively peaceful yesterday. But under the surface the country's two main problems are entirely unresolved. Both are sources of potentially profound instability.

The first is the deep difference of opinion between the student protesters and the Indonesian ruling elite about the form and timing of any transitional government to succeed President Suharto. Some in the elite want a new general election, followed by a vote in the assembly for a new president. That would take months. The students want Mr Suharto to go now.

The second source of instability is the economy. Already unstable, it has been sent almost into free fall by the past two weeks of upheaval. The distribution channels for food and wage payments appear to be seizing up following the destruction of many shops and disruption of the distribution network in last week's riots. Food shortages and wage disruptions look likely. The $43bn assistance programme of the International Monetary Fund appears to be in ruins. It seems almost inconceivable that the present government will get any more assistance and it is an open question whether a transitional government, even if it were set up, would be able to get enough money in the coming weeks and months to avoid food shortages and/or flight of what capital remains in the country.

In these circumstances, yesterday's peace could be shattered at any time. The country remains profoundly unpredictable and the optimistic notion that Mr Suharto has bought himself a few weeks or months in which to control an ordered transition to the candidate of his choice may suddenly prove unfounded.

That is not say that his promise to step down after new elections was, as some have argued, a gesture that changes nothing. On Tuesday, he promised on live television to reform the electoral system and hold elections to a new assembly "as soon as possible". The new parliament, along with 500 appointees to the assembly, would then pick another leader. "I will not run for president again," he said.

Because he mentioned no dates, some people wondered whether he was merely trying to find a way to cling on to power, perhaps even until his current term in office runs out in 2003.

"He's just buying time," said Noni, a woman student at the parliament. "We want him to step down now. No more tricks."

The idea that he is trying to cling on gained some credence when it became clear that the military was prepared to crack down hard on protestors, if necessary. "Somebody told me, who happens to be an army general, that he doesn't care at all if . . . an accident like Tiananmen will take place today," said Amien Rais, the Moslem academic who has emerged in the past two weeks as Mr Suharto's most dynamic opponent. A shaken Mr Rais called off a planned student march in Jakarta, hence yesterday's quiet.

All the same, the offer to resign has made a difference, in that much of Indonesia's ruling elite, including members of the military and some Moslem leaders, seem to have decided to take the president at his word. They want him to implement political change – setting up a new Reform Council that includes some of his critics – and then to resign. Members of the ruling Golkar party, and the speaker of parliament, Mr Harmoko, have put him on notice.

"We cannot force our will so we should compromise," said Yusril Indra Mahendra, a professor who met Mr Suharto on Tuesday, along with eight other Moslem leaders.

On top of the domestic pressure to go, Mr Suharto also faces strong international pressure to stick by his promises. With the US government saying he should go, the chances of continued credits from the IMF and other lenders are slim unless he proceeds rapidly with general elections and revives economic reforms.

Such a course would clearly not be enough for the students. "Whatever he says, the people don't trust him any more," says Eros Djarot, an editor whose magazine was shut down on Mr Suharto's orders in 1994. "How can someone who is at the heart of the problem solve the problem? It is now Suharto against the people." But it does at least mean that one of the world's longest running governments is coming to an end.

A few months ago, that might have counted as good news, because it then seemed possible for the regime to arrange an orderly transfer of power. No longer. Succession procedures are vague: Mr Suharto has picked a vice-president, B.J. Habibie, whom many people feel is even worse than he is, and there is no single dominant leader among the opposition.

Worse still, time is running out. The transition proposed by Mr Suharto would take up to a year. The general election is unlikely to be held before the autumn and the presidential election would probably take place after that, perhaps next spring. Juwono Sudarsono, environment minister, has said Mr Suharto could step down by the end of the year.

Long before any of that could happen, Mr Suharto could be impeached. The opposition has persuaded the speaker of parliament and the leaders of all the four factions in parliament to push for his resignation. If they stick by their guns, they would then call a special session of the People's Consultative Assembly that elected the president for a seventh term in March to impeach Mr Suharto and choose a new president.

It is far from clear whom they would choose. Mr Rais may be the most popular opposition leader, but that is by default. He is distrusted by some in the opposition and is feared by many business people, not least for anti-Chinese comments in the past. The assembly is dominated by Mr Suharto's cronies, employees and even his children; if they dare go against his will at all, they are more likely to opt for General Wiranto, chief commander of the armed forces, or Try Sutrisno, the former vice-president.

That degree of uncertainty looks bad. But at least – if this is the upshot – it might be resolved within a few weeks. And speed is now essential.

The reason is the economy is deteriorating alarmingly. Output was always going to fall this year, because of the currency and banking crises last year. In April, the IMF forecast a fall in real gross domestic product of 5 per cent for 1998. But every forecast is now being revised down. Nilesh Jasani, regional strategist at S.G. Securities, says that GDP could fall 15 to 20 per cent this year. Inflation is up, exacerbating social problems. Because of the fall in the currency and a long drought, prices rose 7 per cent in January, by 13 per cent in February, and are now rising sharply again.

Most immediately alarming, the country is running out of money for essential imports. Exports of the 20 main non-oil export commodities fell nearly 60 per cent between March and January. And foreign exchange reserves fell by $5bn in the first two months of the year, though they have since stabilised because the country has drawn on a standby loan.

So long as Mr Suharto is still there, money from official sources (such as the IMF) will not be forthcoming and private foreign investors will also stay away until he leaves the scene.

Even if an orderly succession were arranged in a couple of months, it would be hard for the new government and its creditors to pick up the pieces. As Mari Pangestu, a prominent Indonesian economist, says, there will be precious little time in which to make the painful reforms needed to stop a rapid economic decline. "We just revised our economic projections downward. We will have to do so again if we have a delayed solution. We have had four or five months when nothing got done. We cannot afford a few more months like this."

Superpower reduced to shouting from the sidelines

Foreign policy drift has left the US without the means significantly to influence Indonesia's crisis, says **Stephen Fidler**

Madeleine Albright, the US secretary of state, yesterday called on Indonesia's President Suharto to step down but America's ability to influence events in that country remains severely limited. As one official put it: "This is not the Philippines [where the US told President Ferdinand Marcos to go] and it's certainly not Panama [where the US overthrew Manuel Noriega]."

US influence in Indonesia was never as great as in these two countries. But some analysts say the drift of US foreign policy during the 1990s, as Congress has struggled to wrest the initiative in many areas from the executive, has further lessened the leverage Washington enjoys in the fourth most populous country in the world.

Indonesia contains more Moslems than the entire Middle East. Its importance to the US has been seen mainly as an economic and strategic counterweight to China and as the key to the Association of South East Asian Nations, a loose regional economic grouping of 500m people. Keeping the shipping lanes of this sprawling archipelago of 13,000 islands open and free from piracy is regarded as important to world trade.

But, says Robert Manning of the Council on Foreign Relations, a former policy adviser to the state department, the ability of the US to engage Indonesia has been severely constrained by human rights concerns in Congress over East Timor, the neighbour it seized in 1975.

"US policy towards a country of more than 200m people has been driven by concerns about 500,000 of them. Is this any way for a great power to conduct its affairs?"

He says, for example, that in the early 1990s Indonesia was offered F-16 fighter aircraft bought by Pakistan but not delivered because Congress blocked their sale. The offer then had to be withdrawn because of Congressional disquiet.

He points out that the US ties to Mr Marcos allowed the Americans to play an important role in encouraging him to leave the country and settle in Hawaii, securing a peaceful transition towards democracy. But there is no close link with Mr Suharto, and the US is left with a limited ability to influence events.

Nonetheless, the US has two levers. The first is economic. The $43bn (£26bn) rescue package led by the International Monetary Fund is effectively dead now the US has withdrawn support for Mr Suharto. But a fresh package will have to be negotiated after a new government takes control, and the possibility of US financial aid is a carrot to dangle before it.

The other levers are through the two countries' armed forces, where the ties remain relatively close. The US dispatched Admiral Joseph Prueher, commander of its Pacific forces, to Jakarta to urge the military to show restraint in dealing with protesters. In the event, he had to turn back because of the riots.

These military links are likely to remain critical whatever Mr Suharto's decisions in the days ahead. "The military may be part of the problem," says the US official. "But for sure, they're also part of the solution."

LETTERS TO THE EDITOR

Key Microsoft question is whether it profits from ideas of others

From Mr Walter Stanners.

Sir, Your leader, "Microsoft besieged", and leader page article, "Government vs Big Business" (May 19), seem to me to omit a main element in the Microsoft antitrust picture. The leader says it is not obvious that the consumer suffers from Microsoft's attempt to squeeze out Netscape and that there is nothing to prevent anyone with a superior product winning back market share. The article quotes a similar view: "This is not a capital intensive industry, it is ideas and the human intellect. Nobody has a monopoly on that, least of all Microsoft."

Microsoft's success, however, is not based essentially on ideas and intellect but on the well-known history of accidents involving the IBM PC. A principal source of its income is the licensing of the PC operating system to computer manufacturers and individual users.

If Apple or Netscape, say, has a good idea, it cannot be patented. Anyone with sufficient programming resources can mimic the new product. No ideas or intellect are necessary for that, only the assured revenue stream Microsoft has. The prime question then is not whether Microsoft will please the customer, or stifle new ideas, but whether, because of its accidental quasi-monopolistic position, it can mimic and profit from the ideas of others, and deprive those others of reward.

And, if unchecked, then of course there would eventually be a drying up of ideas too. The quotation from the regulator thus seems abundantly justified: "We should stop companies using their market power to basically tip the playing field in their direction."

Walter Stanners,
49b Fen End,
Over,
Cambridge CB4 5NE, UK

From Mr Bruce Page.

Sir, There is much talk of "innovation" in the context of the US Justice Department's antitrust suit against Microsoft. Making a proper list of computing innovations would be quite a task. But here is a list of some obvious majors:

● UNIX, Pascal, BASIC, C in its various dialects, Java, PostScript. The Intel and Motorola microprocessor designs. The internet, the world wide web, client-server structures, the WIMPs interface, relational database design, object-oriented development systems. Mathematica, Adobe Illustrator, QuarkXPress/PageMaker, Supercalc, but perhaps more decisively the first Lotus spreadsheets.

The innovators concerned make a various list: AT & T, Niklaus Wirth, Dartmouth College, Sun, Adobe Systems, Intel & Motorola (obviously), Xerox, Apple, IBM, Lotus, Quark, Aldus (as was), Wolfram Research.

I would include David Potter's invention of the hand-held computer (Psion).

Can anyone provide a list that includes any similarly significant innovations from Microsoft?

Bruce Page,
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London EC2Y 8BY, UK

Magnet for corruption

From Mr Patrick J. Wye.

Sir, The discussion of debt relief in your letters column (May 15) should not ignore the ever-present element of corruption that led to the debt in the first place. Without determined efforts by debtor countries to rule out the misuse of loans and aid funds, any relief will be required again in future years.

The flow of funds through state hands is a magnet for corruption that can start even at the point of conversion. It is a sad fact that the candidates for debt relief are also candidates for the marketing of private banking services. Many such countries would not require debt relief if their leaders repatriated the contents of offshore bank accounts.

Patrick J. Wye,
1619 Valecroft Avenue,
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US

Representation must not swamp WTO

From Mr John Raven.

Sir, The call by President Clinton for a new business, labour, environmental and consumer forum to confer with the World Trade Organisation ("Clinton urges new, faster trade round", May 19) may be sound in principle but will need careful handling in practice.

Much business representation is still carried on by what are essentially 19th century associations and federations, acting in isolation and dependent on formal committees, meeting at infrequent intervals.

There are numerous international bodies, including our own, reflecting the views and the interests of service sectors, but there are hardly any similar organisations for our customers in manufacturing and trading sectors.

Real power and propulsion behind world trade, which is what the WTO surely needs to access, lies mainly with a small number of chief executives who tend to delegate service on trade organisations to less occupied adjutants.

The general impression is that global commerce will need to review and reform its representative resources if it is not to swamp and clog essential WTO activity with what could be overlapping, if not competing, claims for the organisation's consultative attention.

The International Chamber of Commerce might be a useful catalyst for representational reform, particularly if it could focus a consensual WTO interface for, and with, other, more specialised international institutions.

There would still be the wider problem of coping with all the other community interests swept up in the proposed forum.

The World Trade Organisation has very limited cash and staff. Making and maintaining links with a large number of organisations, of very varied efficiency and value, could force a serious distraction from the primary task of substantive trade liberalisation.

John Raven,
director-general,
International Express Carriers Conference,
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Belgium

A better use of talents

From Mr David Kinnersley.

Sir, India has plenty of local talent. It is one of the few countries where WaterAid does not use expatriate staff to manage its projects with local partners.

Yet anecdotal evidence says that there is hardly a municipal water supply in this vast country that operates reliably and consistently for its users 24 hours a day.

Improving the situation, and adding much more sanitation service and health education, would be a much better show of India's talents than making bombs.

With their nuclear tests they are shutting doors that they need to keep open.

David Kinnersley,
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FINANCIAL TIMES

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Thursday May 21 1998

Securing the union

For the first time, in the agreement on which both parts of Ireland vote tomorrow, the Irish people will solemnly accept that sovereignty in Northern Ireland cannot be transferred without the consent of the majority of its people. The fringe groups that reject this will be marginalised as never before, and will lack the legitimacy which has facilitated IRA recruitment up to now.

This acceptance of the right of the majority in Northern Ireland to decide, irrespective of its confessional composition, is central to the unionists' cause. They, of all people, cannot afford to say Friday's vote will be invalid if it comprises a majority of only one community and a minority of the other. Once you say that, you cannot expect the nationalist minority to abide by the majority decision to maintain the union.

In addition, the agreement ends direct rule. For the first time in 24 years Northern Ireland will be governed by its elected representatives. Yet many unionists are anxious about it.

The agreement does not, as some of them assert, give Dublin power over Northern Ireland. Nor does it dismantle the Royal Ulster Constabulary.

But it does provide for political prisoners to be released within two years, "should the circumstances allow it". This is offensive to the victims, and prompts fears of further atrocities. And voters' attention has been drawn to this point by the crass decision of both governments to release notorious murderers on parole to attend party conferences.

Yet most of these men would not stay in prison much longer anyway; and those "affiliated to organisations which have not established or are not maintaining a complete and unequivocal ceasefire" will not benefit.

A more serious worry is that former terrorists may join the new executive without clearly renouncing violence or handing in their weapons.

The text of the agreement says the opposite: "Those who hold office should use only democratic, non-violent means, and those who do not should be excluded or removed". Moreover, all participants have affirmed "their commitment to the total disarmament of all paramilitary organisations", and their intention "to use any influence they may have to achieve the decommissioning of all paramilitary arms within two years".

But how seriously can these pledges be taken? Sinn Féin still refuses to come clean about its links with the IRA. Both governments previously insisted on decommissioning – first before, then during the talks – only to retreat under pressure.

Under the agreement, removal from office will require a decision backed by at least 40 per cent of both unionist and nationalist members of the assembly. So if Sinn Féin ministers are accused of breaking their pledge, everything will depend on the willingness of more moderate nationalists to vote against them.

Tony Blair last week sought to assuage unionist anxiety on this point by spelling out criteria for clarifying "whether violence has genuinely been given up for good", and promising to enshrine them in legislation. In the end, voters must decide for themselves how confident they feel that these will work.

On balance, the hope of peace outweighs the dangers. Unionists can hardly expect a more secure future if they vote No. If they vote Yes they cannot be sure of one, but the chances are surely very much better.

US pensions

The US, like every other industrialised nation, has a pension problem. The federal government budget surpluses that the US is about to enjoy would not be there but for the social security trust fund – a mountain of Treasury securities which in theory is there to pre-fund the US's pension system but in practice is paying for other existing government programmes.

To fund its social security pensions, the US therefore faces a significant rise of about a quarter in payroll taxes in a deeply tax-resistant society. Alternatively, it will need to introduce cuts of the same order in what is clearly the US's most popular social programme. Hence President Bill Clinton's call earlier this year to set the projected budget surpluses aside until a plan has been worked out to "save" social security.

This week's report from the privately organised, bi-partisan National Commission on Retirement Policy is arguably the most sophisticated attempt so far to do that.

Its complex, intermeshing proposals include rebating 2 per cent of the current payroll tax for individuals to invest in various forms of index-linked fund in order genuinely to pre-fund part of future pensions. Future costs would be reduced by further extending a planned increase in retirement age so that it reaches 70 by 2029, and then rises further to match greater longevity. A string of other measures would also reduce future costs while, it is hoped, boosting private saving. The considerable transition costs, the commission calculates, should be covered by the projected budget surpluses.

In other words, the commission mixes cuts in the future cost of the system with a measure of pre-funding, and faith that the budget surpluses will materialise.

Some such mixture seems the inevitable reform, though whether Americans, and particularly manual workers, will see a retirement age of 70 as the "saving" of social security may be another matter.

There are plenty of alternative combinations, including other forms of pre-funding and some increase in the payroll tax of 12.4 per cent which the commission's proposals are framed to keep constant. The debate Mr Clinton sought is, however, starting to gel, and the commission's report provides a framework for developing it.

Unhappy ending

President Suharto is becoming increasingly isolated in his confrontation with Indonesia's students. While they are demanding his immediate exit followed by political reform, Mr Suharto wants reform and general elections before he goes. With the parliamentary faction of the ruling Golkar party effectively siding with the students last night, it looks as though Mr Suharto must be the one to give ground.

The sooner he does, the better. Jakarta may have been spared another bout of murderous violence yesterday, but it remains a tinderbox. Tempers will not calm while he remains in office. A transition under his own supervision will not bring the peace he promises, because so few people trust what he says. His pledge to resign is worth little without even a timetable. The danger is that he would try to spin out the reform process as long as he can.

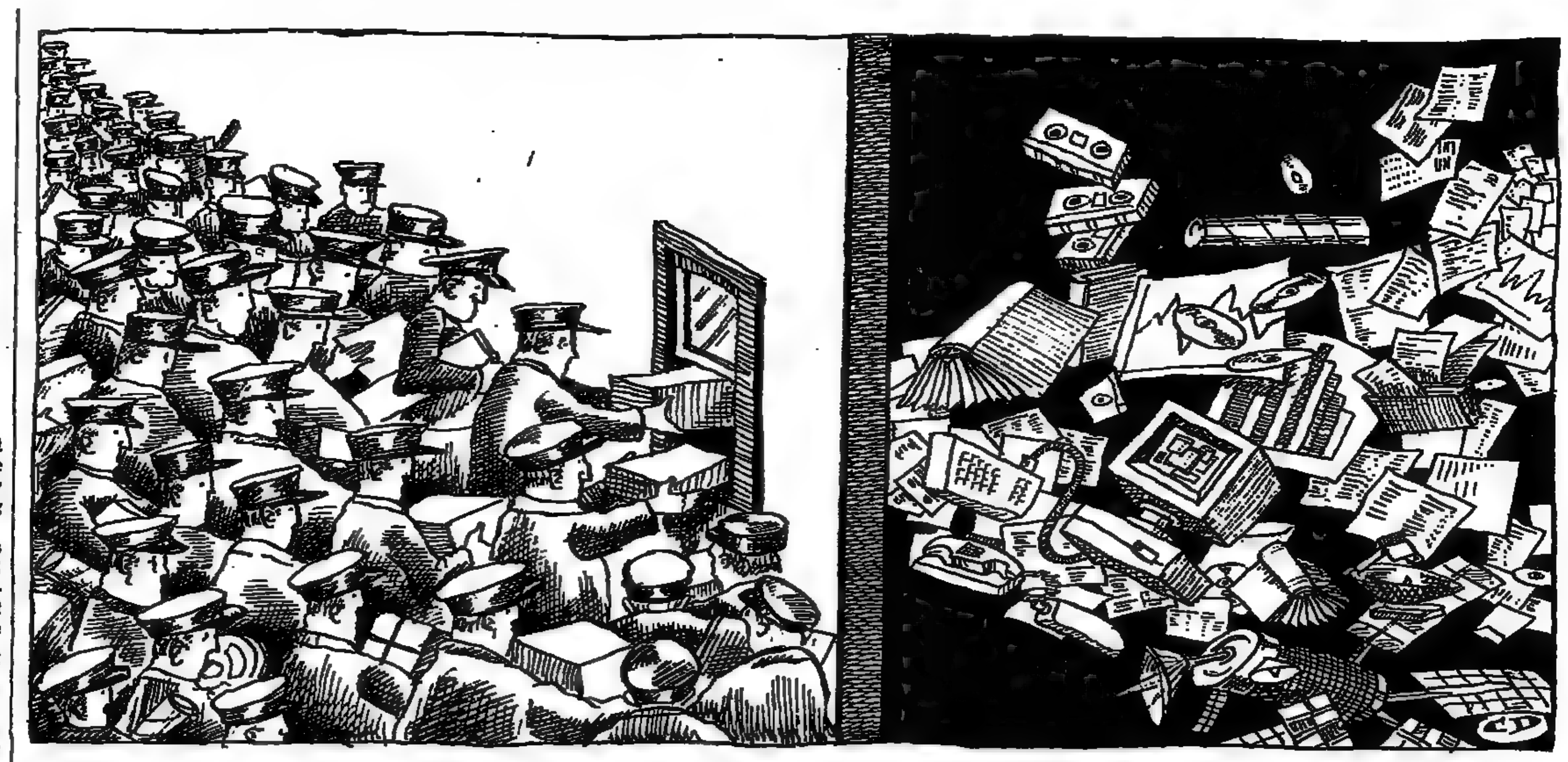
Yet if his speedy departure is essential to the solution of Indonesia's problems, it is only part of that solution. The other important task is to find a new president behind whom the country can unite. Urgent thought must be given to this by all concerned. Those that want Mr Suharto to go quickly must also have a clear view of the election process that should follow and set that process in train immediately.

Too many questions remain unanswered. Is there to be a caretaker administration? If so, who will run it? Is there to be a contested presidential election? If so, can it be conducted by a narrow electoral college stuffed with Mr Suharto's erstwhile supporters in parliament and the military? Many may have turned against him, but they are still not fully representative of the people.

Economic confidence cannot recover without a clear and defined transition plan, nor can Indonesia begin receiving the massive aid it needs to relieve the cruel hardship facing its people.

Hitherto the armed forces were expected to write the transition script, but the past few days have shown its leaders to be weak, divided and fumbling, while the influence of civilian politicians like Amien Rais, the Moslem intellectual, has increased.

Still the armed forces remain the only institution in Indonesia remotely capable of overseeing an orderly transition. If Indonesia is to avoid a descent into chaos, its generals must summon up the determination to do so.



A window of opportunity?

Microsoft is not so much wicked, as the superbly successful implementer of strategies that every modern business seeks to follow, argues Peter Martin

The search for monopoly lies at the heart of business practice. It is easy to miss this truth – but to do so risks misunderstanding the biggest competition case for 20 years, the US justice department's suit against Microsoft.

In a fully competitive market, companies can achieve only "normal" returns – that is, the risk-free rate plus some appropriate adjustment for the riskiness of the business. That may be what investors and executives end up with – through the iron working of market forces – but it is not what they would like. When business people plan their activities, they seek significantly higher returns, and that almost always means achieving some degree of monopoly power, either over resources or markets.

There is nothing new about this. Much of the success of modern economies lies in the way they have channelled that desire into acceptable forms. In the early days of capitalism, the search for monopoly took a much more heavy-handed form: business enterprises sought formal grants of monopoly from the government or banded together in cartels, guilds or associations to impose a collective monopoly on their customers.

In 1875, Franklin Gowen, the president of the Reading Railroad, defended his company against price-fixing accusations by arguing that everyone was at it. He told the Pennsylvania state legislature: "Every pound of rope we buy for our vessels or for our mines is bought at a price fixed by a committee of the rope manufacturers of the United States. Iron beams for your houses or your bridges can be had only at the prices agreed upon by a combination of those who produce them. Every pane of window glass in this house was bought at a scale of prices established exactly in the same manner."

The advent of liberal governments and economic theory has gradually closed off this type of monopoly. But modern marketing provided a less harmful alternative: the creation of brands (which confer on their owners a limited form of monopoly power) and the control of distribution. These weapons have since been supplemented by technology, endless innovation and product differentiation, and the manipulation of proprietary standards.

These are precisely the issues at stake in the Microsoft case. Instead of regarding Microsoft as innately wicked, we should see it merely as the superbly successful implementer of the strategies that every modern business seeks to follow. By establishing standards, Microsoft achieves market influence; by continuously adding features to its core products, it seeks to preserve their dominance; and by its control of branding and distribution relationships, it hopes to protect itself against potential rivals.

So why is the government making such a fuss? Partly because Microsoft has some very vocal enemies; partly because the company takes few prisoners in its business dealings; but mainly because of fears about the future. Although the justice department's suit relies on evidence from the recent past, the accompanying rhetoric is relentlessly forward-looking.

Janet Reno, the US attorney-general, said when launching the case: "The internet is an immensely popular medium for communication, commerce, and the information flow of the 21st century. No firm should be permitted to use its monopoly power to develop a chokehold on the browser software needed to access the internet."

And Joel Klein, head of the antitrust division, said: "Inventors and investors cannot and will not develop and market innovative software programs if they know that Microsoft can use its Windows monopoly to block the distribution of their programs and to force consumers to buy Microsoft's competing products."

In short, the risks lie ahead – and Microsoft's past behaviour is relevant mostly because of the glimpse it provides of its likely behaviour in future. Without such a perceived threat, the case would be absurd overkill.

Microsoft's response is also largely about the future. If the suit succeeds, the government will be setting itself up to control the design of software, it argues. "This suit is all about Microsoft's right to innovate on behalf of consumers, the right to integrate new technologies into the operating systems as they develop," said Bill Gates on Monday. "I think the lawsuit specifically speaks to Windows 98, but the principles they have in mind would stop all advances in all forms of Windows."

Behind both these views of the future lies the question of how to deal with the enormous market power created by ownership of *de facto* standards. In a world in which these are increasingly important, what can be done to ensure that the holder of a standard is permanently constrained by competition: potential competition within its area of dominance, and actual competition in adjacent areas into which it seeks to extend its dominance?

To Microsoft, today's success is essentially transient; what counts is victory in the more threatening future

Today's standards – such as the Windows interface – are different from the fully proprietary ones of the past. IBM's previous dominance rested on a set of hardware and software standards that it owned and did not share fully with outsiders. Building a product that worked with this standard required reverse-engineering IBM's code. Occasionally, incautious competitors stepped over the line into full-scale espionage. Either way, the task was difficult and legally fraught.

Customers will not buy proprietary standards any more – they know they end up paying too much for them in the end. Instead, today's computing business relies on semi-open standards: they are open in the sense that anyone can write programs or hardware that works with them, and they can be cloned much more easily than the proprietary standards of the past. The standard-setters today – such as Microsoft and Intel – rely not on ownership of a closed set of secrets, but on branding, continuous product development and tight contracts.

In other words, they are taking the same approach that all well-run companies have pursued since the death of formal cartels. What makes this case different, and what makes Microsoft and Intel so staggeringly successful, is the "tipping effect" which occurs when a standard establishes itself. Once the VHS videocassette standard established a clear lead over the Betamax format, it soon became the only one in general use. Once audio cassettes established themselves, eight-track stereo was doomed. Once Windows became the single most important personal computer operating system, it soon became the *only* significant one.

But if Microsoft sat still, rival systems would appear, cloning Windows' best features and adding additional advantages. Arguably, that is what Windows itself did to Apple's Macintosh. What counts in preserving Microsoft's monopoly is not the inherent features of the product, but the way Microsoft exploits its dominance – bringing out a new version every couple of years, continuously upgrading it in unpredictable ways, using its current market power to forge contractual relationships to extend that power into the future.

Microsoft and Intel are very different companies. But they share one trait: institutionalised paranoia. To Microsoft, today's success is essentially transient; what counts is victory in the infinitely more threatening future. Using today's market position to ensure future success is an instinctive reflex. A monopoly produced by a tipping effect is fundamentally fragile: the next time round, you could be as easily tipped against as tipping. It must therefore be reinforced by every means possible. If anything, you have to try harder, compete more ruthlessly, exploit every opportunity in marketing, branding, line-extensions and contractual negotiations.

The justice department's view, buttressed by decades of case law, is that once you are a monopoly, you have to ease off, behave better, cut the opposition a bit of slack. This is not a view that is likely to appeal to Bill Gates. The failure of the weekend talks to reach a compromise was therefore inevitable.

Mr Klein stresses that the suit against Microsoft is about "contracts not code". In other words, it is about Microsoft's behaviour, not its use of technology. Since Microsoft undoubtedly exploits its negotiating leverage to the full, this may well be a fruitful line of attack. But since Microsoft is merely doing what every company seeks to achieve, the case rests heavily on the assumption that monopoly – even when fairly earned – confers obligations of behaviour. As Newt Gingrich, Speaker of the House of Representatives, said: "The practices that made perfect sense when Microsoft was a $3bn company don't make sense when they're as big as they are now. They need to ... be more sophisticated about their role."

Even if every word of the justice department's suit stands up in court, there is a world of difference between the behaviour of which Microsoft is accused and the routine market-rigging described by Franklin Gowen or the depredations of Standard Oil's John D. Rockefeller. But precisely because Microsoft's behaviour is the logical extension of standard business practices, the suit is relevant to other companies and markets. Products increasingly form part of interdependent systems, where *de facto* standards rule. Businesses based on the exploitation of intellectual property involve complex marketing relationships and strategic alliances, with tightly drafted contracts. Tipping effects are widespread. Continuous innovation and brand extension are part of every manager's tool-kit.

The Microsoft case sets two different views of business against each other. One of these calls for restraint by the holders of temporary monopolies; the other sees the struggle for competitive advantage as benign and automatically corrected if abused. Microsoft is not a comfortable competitor. But is comfortable competition what we want?

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OBSERVER

Cowger takes the wheel

Gary Cowger, chairman in waiting of Adam Opel, may be a snazzy new model on the *autobahn*, but for General Motors at large he is very much the tried and tested, high-performance roadster.

The no-nonsense 51-year-old American, who was yesterday named as head of GM's German subsidiary, won his stripes running operations in Mexico, one of the US auto giant's biggest foreign outposts, where he won GM the local market leadership.

Cowger hit the road to the top in the early 1990s as head of GM's advanced manufacturing operations: in those not-so-far-off days, words like "lean" and "flexible" – then as now pillars of his vocabulary – were still viewed with suspicion in the world's biggest car company.

GM insiders knew that something was afoot when Cowger, who has a reputation as a troubleshooter and a production whiz, transferred to Zurich earlier this year to become head of manufacturing at GM Europe. Cowger is one of a coterie of top executives with a direct line to Jack Smith, GM's genial chairman.

The worker representatives on Opel's supervisory board harbour less warm feelings towards him. They raised such a stink in March when rumours surfaced that Cowger would replace David Herman, Opel's sharp boss, that GM was persuaded to put the move on hold until passions had cooled.

Only time will tell whether Rüsselsheim, Opel's home town, is fully reconciled to life with Cowger.

MoF gets its man

Japan has at last been forced to admit that it won't get its Financial Supervision Agency up and running by the June 1 deadline.

The shenanigans over the country's attempts to boost the credibility of its banking regulation intensified this week after Japanese newspapers proudly announced that someone had finally been found to head the new agency – a certain Masaharu Hino, head of the Nagoya public prosecutor's office.

Whether the 62-year-old Hino knows anything about banking is unclear. He does have the advantage of not being a financial bureaucrat – so he is untainted by recent corruption scandals.

The appointment brought protests from sections of the ruling Liberal Democratic party, some of whom were heard to mutter that Hino's name might have been leaked by the Ministry of Finance, which wanted a suitably toothless candidate who would not curb its own power.

The MoF says this is nonsense, and insists it wasn't consulted on the appointment. Either way, the LDP yesterday grudgingly agreed to back Hino but called for "tighter information control" in future.

Meanwhile, the MoF says the launch of the new body will be "delayed" by at least three weeks. Let's hope all the fuss doesn't give Hino cold feet.

Tax table

Record results at Toyota last year meant that the carmaker was the biggest tax contributor in Japan, pushing the Bank of Japan into second place.

In some countries, the idea of the central Bank paying tax at all might appear a odd, but the BoJ is almost 50 per cent privately owned.

Its success has been enhanced by a neat bit of accounting. Since it launched its repurchase market in November last year, it has been double-counting repo operations so that they are technically not "traded". Hey presto! No securities transaction tax. And no trouble from the Ministry of Finance.

The bank won't be too upset about being knocked off the top of the taxpaying league – especially if it means less intense scrutiny of how all the figures add up.

Brought to heel

It isn't just Netscape which feels the bruises of tangling with Microsoft. The US software giant has made quite an impression on Check Point Software, a small Israeli high-tech company that dominates the world market for network security products.

In Israel last month, Microsoft executive vice-president Steve Ballmer publicly invited Check Point to "compete or co-operate" with Bill Gates's empire in the network security niche.

Check Point fumbled for a response. Investors saw a threat. And even as Check Point reported record results, its Nasdaq-listed shares plummeted from $42½ on April 21 to $28¼ in early May, wiping about one-third off its $1.5bn market cap.

Last week, Ballmer apologised to Gil Shwed, Check Point's 20-something chief executive, and it took just one phone call for the two companies to tie up a strategic partnership. Shwed isn't giving chapter and verse but is telling the local media: "We are going to co-operate. We're happy to co-operate."

The purpose of the partnership? To promote Windows NT – Microsoft's "platform" for network security. Sounds better than competing.

Euro welcome

Another sage of the markets has come out in favour of the European single currency: Fidel Castro, Cuba's unreconstructed communist boss.

It turns out that his endorsement, delivered at the World Trade Organisation shindig in Geneva, was more an attack on the almighty dollar than pure admiration for its yet-to-be-minted rival. With friends like that, who needs the British Conservatives?

Financial Times

100 years ago

Trouble In The Mines

At a meeting of the Pilbarra Gold Mines to be held on Monday next, it will be proposed that the Company be wound up voluntarily. The Committee of Inquiry reports that the Directors went to allotment with an absurdly inadequate provision of working capital, and proposes that they be censured for their conduct in so doing, and also for not enforcing a guarantee which they held from the Finance Corporation of Western Australia. The Pilbarra United is one of a number of companies intricately associated with that extremely unsatisfactory concern.

50 years ago

More Aid For Japan

Melbourne, May 20. The Prime Minister, Mr. Chifley, to-day expressed his agreement with the report of the group of leading American business men, led by Mr. Percy H. Johnson, which, after investigation of the economic situation in Japan, recommended more active measures to restore Japanese industry. Mr. Chifley agreed with the committee that Japan's productive capacity should be substantially increased to enable her volume of trade to be substantially multiplied eight or nine times.

FINANCIAL TIMES
THURSDAY MAY 21 1998

THE LEX COLUMN

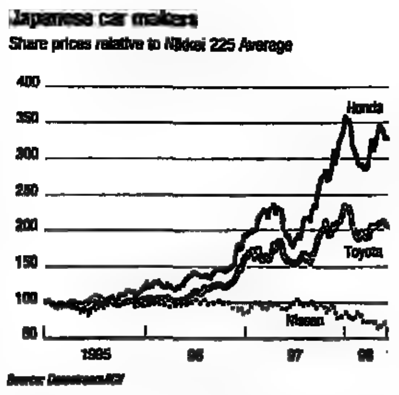
Nissan's nadir

Nissan is in a grave state. A second profit warning in six weeks, signalling its fifth loss in six years, is accompanied by an appropriately dramatic restructuring plan that has little chance of success. In fact, it is probably time to start waving goodbye to Japan's second biggest automotive group as its independence is now looking unsustainable. Such losses, particularly in the US where they have soared to Y80bn from the Y45bn forecast in mid-April, may put Nissan's rescue beyond the financial reach of its already straitened Fuyo *keiretsu*.

At the heart of Nissan's troubles is its growing debt pile, now Y2,500bn. Without the cash to develop attractive new models in fast-growing segments, such as recreational vehicles, meeting market share targets has involved heavy discounting on Nissan's dull and unfashionable sedans. Ditching these targets and focusing on profitability is a start. And reducing debt through selling cross-shareholdings and real estate will help too. However, with so much unconsolidated debt linked to its suppliers, the real picture is probably even worse.

With Nissan Diesel up for sale and Mazda basically in Ford's grasp, hostility to foreign ownership is waning. But the hidden liabilities could deter acquisitive western auto groups. Nevertheless, if greater balance sheet clarity emerges, a bold move by DaimlerChrysler or Volkswagen is not inconceivable.

Japanese car makers
Share prices relative to Nikkei 225 Average



Source: Datastream/ICV

Valuing synergies

Each time another huge all-share merger breaks, investors attempt to gauge how much value is being created. The quick and dirty way of doing this is to use management's estimate of the synergies – $1bn for Citigroup or $3bn at DaimlerChrysler – subtract tax and multiply by the expected price/earnings ratio of the blended group.

But this is almost always too generous, because the quality of these extra earnings is usually inferior to those of the base business. One reason is that the bulk of such synergies are typically cost savings. While these can be quantified with reasonable certainty, they are unlikely to grow very fast. At best, the savings might grow in line with inflation. At worst, cost advantages could be quickly eroded as competitors engage in copy-cat mergers; that is especially so in consolidating industries like banking or drugs.

There are two other caveats on the cost side. First, sometimes the figure managements give for savings include costs which could have been cut without any merger. Second, investors should not forget to subtract any exceptional merger costs from their estimate of created value. Managements often hope that these will just slip under the table.

What about revenue synergies like cross-selling benefits? Here the issues are almost exactly the opposite. Such gains promise higher growth than cost-cutting, but they are also much less certain. Again valuing them with the two companies' blended p/e ratio is too generous.

There is clearly no single multiple that can be applied as a magic formula. The nature of the synergies needs to be examined in each case. But a reasonable first stab is to assume that the synergy benefits last forever but do not grow. If that income stream is then discounted by a typical cost of capital – say 7-10 per cent – the right p/e multiple is 10-14.

Crédit Lyonnais

If the French government wanted to salvage as much as possible of the FFr125bn state aid sucked into Crédit Lyonnais, it would not be worried about preserving the bank's independence. Crédit Lyonnais is still one of France's leading banks and, with bad debts hived off and profits recovering, it should be a tempting target for two types of bidder. The first would be domestic players, such as Société Générale and Banque Nationale de Paris, both recently thwarted in the bidding for CIC. The second would be foreign banks with euro-zone ambitions: Deutsche Bank, ABN Amro or Lloyds TSB might be among those casting an eye over it. A hotly contested auction would provide the best chance of topping the current top-of-the-range valuation of FFr60bn-FFr65bn for Crédit Lyonnais.

The favoured plan, however, is to protect the bank's independence by selling a few minority stakes to non-predatory partners – such as Allianz, the German insurer – and floating the rest. This avoids two unpalatable political outcomes: jobs being cut by a rationalising domestic acquirer and a big French name falling under foreign control.

But this plan contributes nothing to a restructuring of French banking that would help the sector prepare for intensified cross-border competition under monetary union. An industrial opportunity is being missed, as well as a chance to maximise returns to taxpayers.

BoNY/Mellon

Mellon Bank's investors may own the company, but in the minds of its management they are clearly not fit to decide its future. Bank of New York's $24bn takeover proposal should have been put to a shareholder vote. It was a bona fide offer, at a 25 per cent premium to the share price. According to BoNY, 99 per cent of the investors it questioned, speaking for 30 per cent of Mellon's shares, were in favour of the takeover. But Mellon's board repeatedly rejected it out of hand, eventually forcing BoNY, which wanted a friendly deal, to withdraw.

Nor can angry investors do much now. Mellon is incorporated in Pennsylvania, which has probably the worst banking laws and takeover statutes in the US. Mellon shareholders cannot call an extraordinary general meeting and even at the annual meeting – the next one is in April 1999 – they can only dismiss a third of the board at a time. Having been so comprehensively disenfranchised, they should now vote with their feet and sell the stock.

US trade deficit hits record level as Asian crisis bites

By Gerard Baker in Washington

The US trade deficit widened in March to a record monthly level as the Asian economic crisis bit deeper than ever into the country's manufacturing sector.

The deficit in goods and services was a seasonally adjusted $13bn in March, the Commerce Department reported yesterday, bringing the gap for the first three months of the year to a cumulative $36.8bn, an increase of 26 per cent on the same period last year.

The report was the clearest evidence yet that the combined effect of the declining demand in Asia and a surging US dollar is producing a sharp deterioration in the US trade position that is likely to slow the recent rapid pace of economic growth.

Total exports of goods and services rose by 1.7 per cent in March from a year earlier to $79.4bn, but exports to the Pacific Rim countries dropped by 15 per cent. Similarly, overall imports were up by 7.6 per cent to $92.4bn, but imports from Asia rose by 11 per cent. As a result, the merchandise trade balance with the Pacific Rim leapt by 78 per cent on a year earlier to $12.1bn.

Most economists agreed the scale of deterioration in the trade account signified slower growth for the economy over the rest of 1998.

Charlene Barshefsky, US trade representative, said the sharp rise in the trade gap highlighted economic growth, which sucked in imports, as well as the impact of the Asia crisis on exports.

Lost exports and imports substituted for domestic output subtracted 2.2 per cent from gross domestic product in the first quarter. However, domestic demand was still robust enough to take overall growth to 4.2 per cent.

If, as now seems likely, trade continues to take large chunks out of domestic output and demand slows, overall growth will slip back to a more moderate pace. That could prevent the Federal Reserve from raising interest rates to cool the economy.

Alan Greenspan, Fed chairman, has repeatedly said he expects growth to slow this year because of the Asian effect. On Tuesday, the central bank left short-term interest rates unchanged, reflecting this confidence.

Yesterday's figures revealed a sharp increase in the already large US merchandise trade deficits with Japan – up 23 per cent on a year earlier to $5.8bn – and China – up 45 per cent to $3.8bn.

But there was also a steep deterioration in the balance of trade with the European Union – the deficit for the first three months of the year trebled to $1.7bn from the same period a year before.

The overall deficit in goods rose to $20.2bn in March. But the surplus on services continued to rise, to $7.2bn.

This improvement on the services account has prevented the overall trade deficit sliding deep into the red over the past few years. But there were some suggestions that the trade gap could widen further in the next few months.

Japanese trading, Page 15

Security of euro threatened by theft of hologram design

By Robert Graham in Paris and Wolfgang Münchau in London

French and German investigators are trying to track down a French-made hologram design, intended to deter counterfeiting of the European Union's single currency.

The unique hologram disappeared somewhere between Paris and Munich last week, to the embarrassment of European governments and the bafflement of central bankers.

The EU may have to change the design of its high-denomination euro banknotes – due to be issued in 2002 – following the loss of the hologram, which disappeared on its way to be tested by a high-security printing firm near Nuremberg.

Neither the special counterfeit money department of the French police force nor the state criminal investigator in Munich would comment on the case yesterday.

The European Monetary Institute, the Frankfurt-based forerunner of the future European Central Bank, said the hologram's disappearance would not affect the safety or production of euro banknotes.

"We don't want to second guess anything until we have received a full police report," said the Emi. "All we know is that it has disappeared."

Mislaying an important security feature of the future currency has damped celebrations that surrounded the minting of the first euro coins, near Bordeaux in France, last week.

Officials have always worried about the counterfeiting of euro notes, which will start to be circulated with the coins by July 2002.

Officials in Paris said that the loss bore the hallmarks of a well organised theft, as only an expert would understand the significance of the hologram in the note-printing process.

The hologram, produced by a small business in the Paris region, disappeared on May 12 after being taken to be loaded on to an Air France flight at Roissy airport by Brink's, a security company. Brink's yesterday refused to comment on the fate of the vital package which weighed less than a kilo. But it appeared the hologram had been due to go unaccompanied in the hold on flight AF-2522.

Air France said yesterday it was the intended carrier of the hologram and added that it had lodged a complaint with the air transport police about the disappearance of the package.

One EU monetary official described the disappearance as "startling" and pointed out that such an important document should have been accompanied by security guards – not just delivered and met at the other end.

The hologram was due for testing at Leonhard Kurz, a southern German high-security printer and foil maker, based near Nuremberg. Kurz yesterday referred all inquiries to the Emi.

It is understood Kurz was due to mount the hologram on to foils which would be used in the test phase of the printing of the euro.

The Germans have the most advanced techniques in the use of holograms for security in high-denomination banknotes.

CONTENTS

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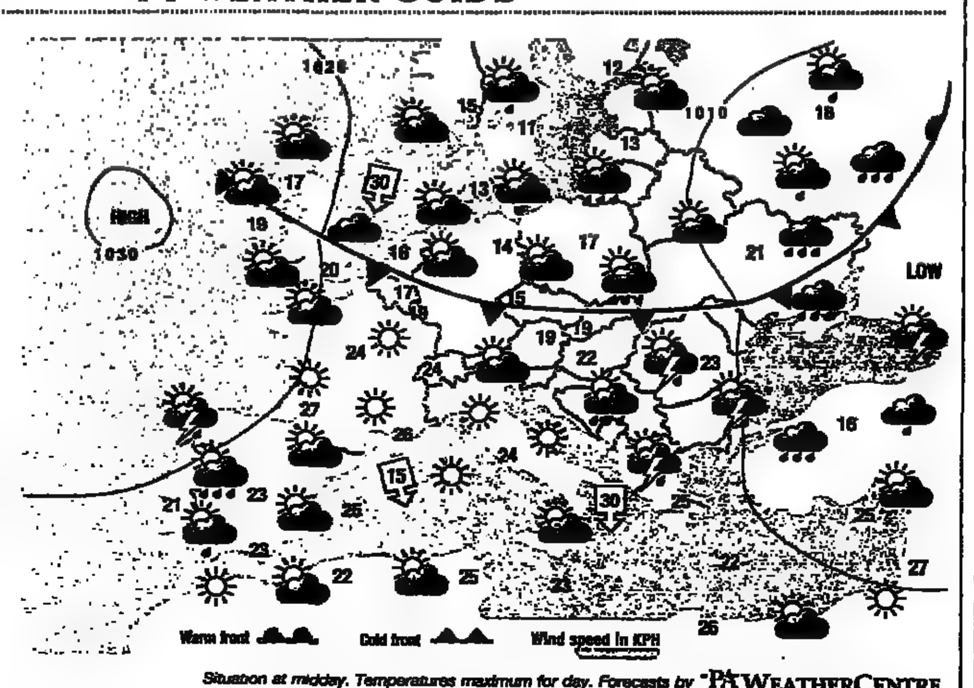
'L'Arlésienne' was one of two Van Gogh paintings stolen by masked gunmen from a Rome museum along with a work by Cézanne. Page 3

FT WEATHER GUIDE

Europe today
The southern half of Scandinavia will be cooler and more unsettled than recently, with a threat of showers. France, Switzerland and Italy will be hot, with long sunny periods and isolated showers. The Low Countries, Germany and Austria will have some sunshine, but it will be cooler with some showers. Spain and Portugal will continue to have scattered afternoon thundery showers. Greece will be mainly dry and settled. The Balkans will be thundery.

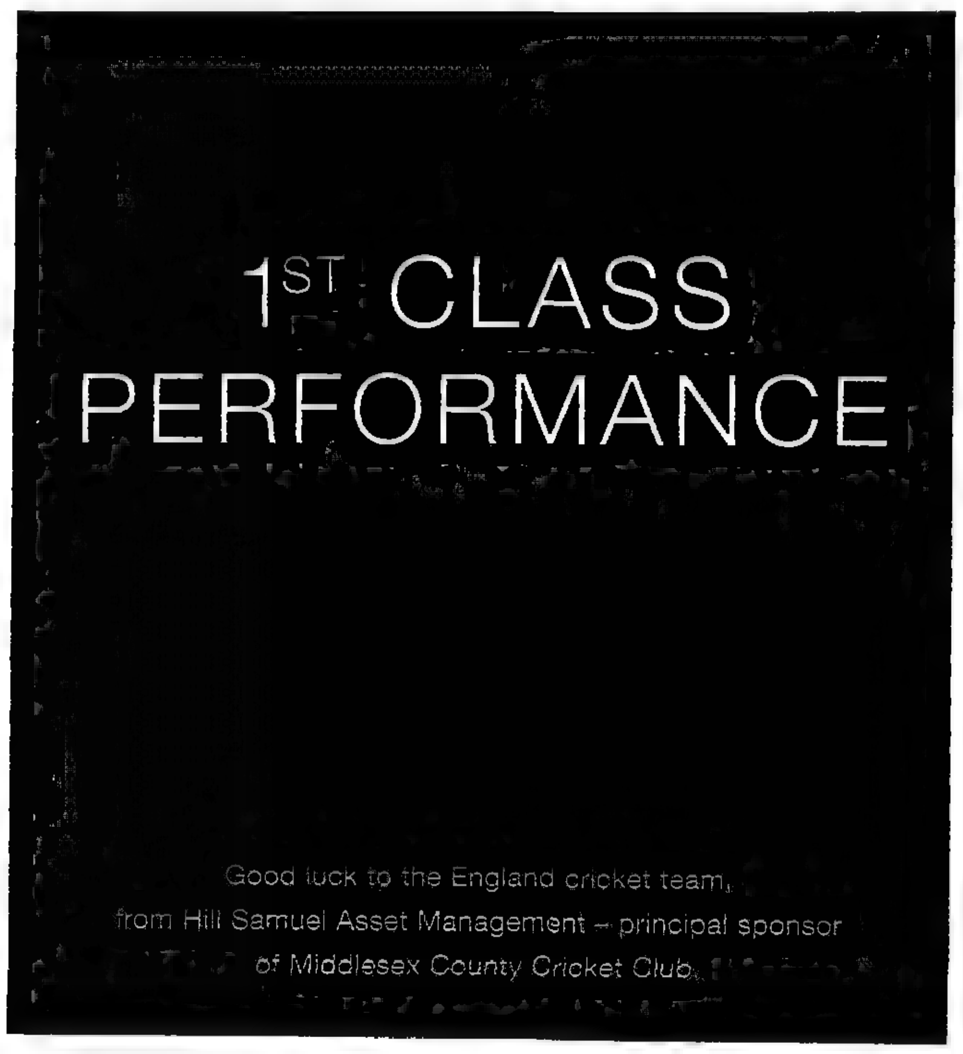
Five-day forecast
The Iberian peninsula will remain changeable, with scattered thundery showers, although many coastal resorts will be dry. The showers will continue across the Balkans, and there will also be showers over Italy during the weekend. North-east Europe will have rain at times, but the north-west will be fine and settled.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	38
Accra	Fair	30
Algiers	Fair	22
Amsterdam	Fair	16
Athens	Fair	25
Atlanta	Thunder	31
B. Aires	Fair	23
B.ham	Cloudy	19
Bangkok	Thunder	34
Barcelona	Fair	23
Beijing	Fair	28
Belfast	Fair	17
Belgrade	Shower	21
Berlin	Shower	14
Bermuda	Shower	28
Bogota	Cloudy	18
Bombay	Sun	34
Brussels	Fair	17
Budapest	Shower	22
C.hagen	Fair	13
Cairo	Fair	30
Caracas	Fair	31
Cardiff	Fair	20
Casablanca	Fair	21
Chicago	Shower	21
Cologne	Cloudy	18
Dakar	Fair	27
Dallas	Sun	31
Delhi	Sun	38
Dubai	Sun	37
Dublin	Fair	19
Dubrovnik	Sun	22
Edinburgh	Fair	17
Faro	Fair	21
Frankfurt	Fair	19
Geneva	Sun	24
Gibraltar	Sun	22
Glasgow	Fair	17
Hamburg	Shower	12
Helsinki	Fair	12
Hong Kong	Thunder	30
Honolulu	Fair	30
Istanbul	Shower	19
Jakarta	Shower	32
Jersey	Fair	17
Johannesburg	Sun	15
Karachi	Sun	36
Kuwait	Sun	40
L. Angeles	Sun	19
Las Palmas	Fair	24
Lima	Cloudy	23
Lisbon	Shower	21
London	Cloudy	20
Lux.bourg	Fair	19
Lyon	Fair	24
Madeira	Fair	21
Madrid	Shower	23
Majorca	Sun	25
Malta	Fair	23
Manchester	Cloudy	17
Manila	Fair	30
Melbourne	Fair	17
Mexico City	Sun	31
Miami	Sun	32
Milan	Fair	28
Montreal	Shower	20
Moscow	Shower	18
Munich	Shower	19
Nairobi	Fair	25
Naples	Fair	25
Nassau	Cloudy	30
New York	Fair	26
Nice	Fair	27
Nicosia	Fair	25
Oslo	Shower	15
Paris	Sun	24
Perth	Shower	21
Prague	Shower	16
Rangoon	Cloudy	32
Reykjavik	Drzzl	11
Rio	Cloudy	24
Rome	Sun	24
S. Frsco	Fair	18
Seoul	Sun	27
Singapore	Cloudy	35
Stockholm	Rain	11
Strasbourg	Fair	21
Sydney	Fair	19
Tangier	Fair	28
Tel Aviv	Fair	27
Tokyo	Fair	25
Toronto	Fair	19
Vancouver	Shower	16
Venice	Sun	26
Vienna	Fair	19
Warsaw	Shower	17
Washington	Shower	28
Wellington	Fair	14
Winnipeg	Fair	21
Zurich	Fair	22



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COMPANIES & MARKETS
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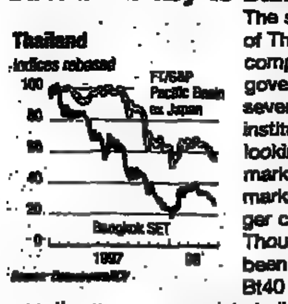
INSIDE

Kodak takes fight to Fuji with four-year investment in China

Kodak, the US photo-film maker, is investing $1bn in China over the next four years in a gamble that the world's biggest potential market will help lift it out of the doldrums. The move also reveals a desire to take the fight to Fuji in what its Japanese rival sees as its own backyard. Page 16

Baht holds key to Bangkok bourse



The share price volatility of Thailand's finance companies following the government takeover of seven troubled financial institutions has investors looking elsewhere in the market. But the Thai market may have a bigger concern – the baht. Though the baht has been stable at just under Bt40 to the US dollar recently, many economists believe it may slip closer to Bt50 to the dollar. Page 38

China develops thirst for coffee

Thousands of cafes have opened in Beijing and the taste for cappuccino has become a mark of cosmopolitan culture. Though a devoutly tea-drinking society, the fashion for coffee in prosperous urban areas has been enough to multiply the coffee business in China several times over. Page 25

Malaysian banks damaged by crisis

The Malaysian financial crisis has been especially damaging to banks. The financial sector is burdened by domestic loans equivalent to 170 per cent of gross domestic product. Many financial institutions have set aside large provisions, dragging down their bottom lines. Page 16

Four European markets hit records

Europe cruised into the Ascension Day holiday in buoyant mood with bourses in Brussels, Frankfurt, Paris and Vienna recording all-time highs. Page 25

Car parts makers face consolidation

Suppliers of car components say Chrysler's merger with Daimler-Benz will trigger further consolidation in the sector. Many suppliers are under cost pressures as carmakers slash purchasing budgets and some manufacturers say the deal is set to make life harder. Page 21

Bulgaria set to launch eurobond

Bulgaria is gearing up to launch its inaugural eurobond, which is expected to have a five year maturity and raise $250m-$300m. The issue was originally planned for last autumn but delayed in the aftermath of the Asian crisis. Page 26

Wider trade gap pushes dollar lower

An unexpectedly big US trade deficit pushed the dollar lower against the D-mark, while the Japanese yen took comfort from the uneasy calm following violent protests in Indonesia. Page 27

COMPANIES IN THIS ISSUE

CROSSWORD, Page 28

MARKET STATISTICS

BoNY withdraws $24bn bid for Mellon

Executives trade accusations as talks to create sixth largest US bank fail

By William Lewis in New York

Bank of New York yesterday withdrew its $24bn hostile offer for Mellon Bank, of Pittsburgh, bringing to an end the largest-ever unsolicited bid for a bank in the US.

Amid a welter of claims and counter-claims, executives at BoNY, the US's oldest bank, attacked Mellon's management for refusing to meet them to discuss the offer, announced in April.

"Mellon's refusal to meet with us and to have the opportunity for a constructive dialogue that would move this merger forward is inexplicable," said Thomas Renyi, BoNY's chairman and chief executive officer. "I am particularly dismayed at Mellon's dismissive and superficial treatment of this transaction."

However, Frank Cahouet, Mellon's president and chief executive officer, immediately hit back, releasing details of a letter he sent BoNY on Tuesday which accused Mr Renyi of "persistent propagandising".

Mr Cahouet added: "Your continued agitation is harmful to Mellon. It is time for you to live up to your public statements, withdraw your offer and abandon permanently your hostile takeover efforts."

In April, Mellon had rejected BoNY's offer, which would have created the sixth largest US bank by market capitalisation and a global powerhouse in several investment management-related businesses. The merged bank would have been the largest custodian in the world and one of the largest fund managers with $350bn under management.

BoNY's hostile approach was the latest twist in a long-running series of talks between the two banks. Negotiations in December are said to have broken down because of differences about who would run the combined company.

On Tuesday afternoon BoNY received a letter from Mr Cahouet and Mellon's board rejecting its request to make a presentation to them. Yesterday morning BoNY formally withdrew its offer.

BoNY also said yesterday that while it was "still available to engage in productive discussions" with Mellon, "that is not likely to happen". It announced that it intends to resume its stock buy-back programme, which under US accounting rules makes it almost impossible to launch a merger of equals bid.

Nevertheless, BoNY stressed that it remained keen to join the wave of consolidation sweeping the financial services industry in the US. "We expect continued growth through acquisition," BoNY said.

Analysts said that the peculiar nature of the long-running talks between BoNY and Mellon meant that BoNY's decision to withdraw its offer was unlikely to affect the merger momentum in the financial services industry.

Analysts speculated that Mellon would attract other offers. Mellon said: "We can do deals, certainly... but we will do what we want to do."

In morning trading on Wall Street, Mellon's stock price fell 2.15 per cent or $1¼ to $68⅝. BoNY's stock price increased 2.3 per cent or $1⅜ to $61¼. When BoNY launched its bid it said it valued each Mellon share at $90.

Lex, Page 14

Crédit Lyonnais rescue plan is cleared

By Samer Iskandar in Brussels and Andrew Jack in Paris

Karel Van Miert, the European Union's competition commissioner, sent a warning to banking regulators yesterday to be more vigilant as the Commission cleared a rescue plan for Crédit Lyonnais, the French state-owned bank.

In a side-swipe at France's regulatory system, he said: "Activities of banks need to be controlled in a more efficient way to ensure this does not happen again. Everyone has to accept that control [by the French treasury and central bank] has not been efficient."

Mr Van Miert said he hoped "control measures will be put in place [by national banking regulators] to avoid this type of enormous slippage".

The Commission's clearance of the rescue plan, the biggest in European corporate history, had been expected after Mr Van Miert reached an agreement last week with Dominique Strauss-Kahn, French finance minister, on conditions to be met by the bank.

These included the disposal of FFr680bn ($111bn) of Crédit Lyonnais assets, as calculated in 1995. Mr Van Miert said the accumulated losses of Crédit Lyonnais were "at least FFr100bn". The Commission had worked on the assumption that aid would total FFr125bn, but "could go much further".

It was "impossible to value the rotten assets" of the bank, which were being liquidated by the French authorities. "The worst assets are those that will be sold last," he said, warning that this could result in a larger aid package than currently estimated. The aid could amount to as much as FFr190bn, according to some Commission estimates.

The Commission also imposed strict monitoring of the asset sales and said it would not hesitate to re-open proceedings if the conditions were not met. "We have to be informed step by step," Mr Van Miert said. "There should be no doubt the Commission will re-open an investigation if it feels the timetable or conditions are not respected."

Crédit Lyonnais' Belgian subsidiary would be sold this year. The sale of BfG, the German banking subsidiary, "could take longer", Mr Van Miert said but he said that "all should be finished before October 1 1999".

Mr Strauss-Kahn told the French National Assembly yesterday: "Today everyone should know that Crédit Lyonnais is on its feet again; far from being garotted it is freed from the sword of Damocles that was weighing on its shoulders."

Lex, Page 14
End of uncertainty, Page 29

The European Union's competition commissioner Karel Van Miert said yesterday that he hoped regulators would ensure there would be no repeat of the situation which led to Crédit Lyonnais' rescue Picture: Reuters

Arthur Andersen woos Coopers' Brazilian firm

By Jim Kelly in London

Arthur Andersen, the Big Six accountancy firm, is talking to the Brazil firm of Coopers & Lybrand in an attempt to woo it away from the planned $13bn global merger with Price Waterhouse. It said yesterday it was in similar talks in Latin America, Europe and Asia.

The announcement of discussions with the Brazil firm came within hours of formal European Commission regulatory approval for the PW-Coopers' merger – in spite of reservations about the state of the European audit market for large companies.

Andersen, which faces losing its global lead in the sector if the PW-Coopers merger goes ahead and is in a bitter dispute with its sister firm, Andersen Consulting, previously hinted it hoped to pick up a string of discontented firms from within PW and Coopers.

While losing Brazil would be a blow to the PW-Coopers merger, senior executives said they were confident about 85 per cent of member firms would merge on schedule on July 1 – with many of the rest following soon after.

"There are no deal-breakers around," said one London-based executive involved in the global merger discussions.

But Jim Wadia, Arthur Andersen's worldwide managing partner, after securing the Chilean practice of Coopers, is understood to be hopeful other large member firms will join his network. It is understood Andersen is in talks in Spain and Sweden. He said: "We are holding discussions with several other Big Six member firms in Latin America, Europe and Asia/Pacific. They recognise the value of the Arthur Andersen brand and have expressed a desire to be aligned with our strong service reputation and growth plans."

Coopers' firm in Brazil employs 750 professional staff and about 45 partners and has annual revenues of $60m. If it combines with Andersen, which has revenues of $100m, it will be the largest firm in the country, according to Andersen.

The European Commission's clearance allows PW and Coopers to move forward to detailed planning for their merger, which would create the world's biggest professional services firm. Competitors hope to pick up staff and clients as sensitive issues such as the new firm's name, management structure and job allocation begin to surface.

The Commission said it had decided to clear the merger because it had no "conclusive proof" it would lead to market dominance, largely because it thought there would be enough competition in the new "Big Five" market. But there were clear dangers the audit market was prone to such dominance because of inherent problems in the profession - such as the fact that clients were "locked-in" to auditors because of the costs of switching firms and that firms were interlinked through professional self-regulation.

Computer chiefs in line to share $1bn stock option bonus

By Louise Kehoe in San Francisco and William Lewis in New York

Three top executives at the US company Computer Associates stand to gain almost $1bn in stock if the software company's shares maintain their current level through today's close of trading.

The stock option bonus is to be split three ways. Charles Wang, chairman and chief executive, stands to be granted shares worth approximately $550m, Sanjay Kumar, president, will get shares worth $280m, while Russell Artzt, executive vice president in charge of research and development, is in line for a $98m share bonus.

Under the terms of a 1995 bonus plan, 13.5m of CA's shares were granted to the three on condition that the company's share price remained above a closing price of $55.33 for 60 trading days within any 12 month period. The award was in addition to a 6.75m share options bonus granted at the same time.

CA yesterday disclosed that it would take a special charge of approximately $1.2bn in any period during which the 60th trading day occurs.

Since last October, CA's shares have closed above the target price on 58 consecutive days. Even if the share price falls below the target price today, there are four more months for the target to be hit.

Shares of CA have risen from $34.42 a year ago to a 12 month high of $61½ earlier this month. In morning trading on Wall Street CA's share price fell $1½ to $55.

On Tuesday, CA reported earnings for its fourth fiscal quarter, ended March 31. Earnings for the quarter increased by 26 per cent to $422.8m over a year earlier, marking the software group's 25th consecutive quarter of double-digit operating earnings growth.

Large Japanese trading companies suffer in slump

By Michiyo Nakamoto in Tokyo

Japan's economic slump has taken its toll on the country's large trading companies, which yesterday reported big downturns in their annual results.

Mitsubishi and Mitsui, the blue chips of Japanese trading companies, saw parent profits fall, while Marubeni and Itochu dropped into loss at the net level after valuation losses on their securities holdings. Sumitomo managed to return to the black on the net level but saw recurring profits decline nearly 60 per cent.

The trading companies, which have businesses ranging from chemicals and instant noodles to machinery and satellites, warned that the continuing slump in the domestic market and the economic turmoil in Asia would put further pressure on their profits in the current year.

Japanese trading companies

Ybn, year ending March

	Sales 1998	Sales 1997	Net profits (loss) 1998	Net profits (loss) 1997
Mitsubishi	12,012	11,[illegible]	21.4	22.8
Mitsui	14,[illegible]	13,[illegible]	21.1	[illegible]
Itochu	14,[illegible]	14,176	(94.7)	11.1
Marubeni	13,017	13,[illegible]	([illegible])	[illegible]
Sumitomo	11,972	12,7[illegible]	22.1	([illegible])

Source: Companies

In particular, the sharp deterioration in the stock market has increased the valuation losses on the trading companies' holdings. Marubeni, for example, took an extraordinary loss of Y82.24bn ($632.6m), of which Y51.13bn is related to the valuation loss on its securities holdings. Meanwhile, Itochu took a loss of Y94.5bn, reflecting losses on property and trust funds and losses related to the closure of affiliated companies and non-performing loans.

The Asian economic crisis and currency turmoil came just as the trading companies had been expanding their operations in the region. In addition, the downturn in Japanese consumption particularly depressed demand for housing materials, textiles, minerals and property.

Most trading companies forecast lower sales and profits in the current year. Mitsubishi expects sales to fall to Y11,500bn from Y12,012bn and recurring profits to fall to Y13bn from Y21.4bn.

Carmakers' record profits, Page 22

Kodak focuses on China for enlarged growth

With $1bn of investment, involving the modernisation of an entire industry, the stakes are high, writes **Tony Walker**

George Fisher, chief executive of Kodak, does not give the impression of being a gambler, but in allocating a minimum of $1bn to investment in China over the next four years he is betting that the world's biggest potential market will help lift his company out of the doldrums.

Mr Fisher, who moved to Kodak – based in Rochester, New York state – four years ago after conspicuous success as head of Motorola, also has his own reputation as a successful manager tied to his China strategy. For both Kodak – with faltering revenue growth in its home US market – and George Fisher, the stakes are high.

"I think that in 10 years you will find this is the most important thing Kodak has ever done," says Mr Fisher, whose own contract runs to 2000. But he also recognises it will take time for Kodak's China investments to bear fruit.

Kodak's China gambit – in which it is virtually assuming responsibility for modernising an entire industry – is a bold stroke and one that is being watched closely as a possible model by international investors in other sectors.

Driven by Mr Fisher's vision – following a request in 1994 by Zhu Rongji, then a vice-premier, for technical assistance – Kodak is aligning itself with a leading Chinese industry in a more comprehensive way than has been attempted before. However, the Kodak chief bridles at suggestions that the company is behaving more like an aid agency than a corporation hungry for profits.

"We feel that by working with the government, this is totally consistent with building the Kodak brand in China, which in turn is totally consistent with our gaining market share and making money," he says. "We are not doing this just to be nice people. We are doing it because it's good business."

Mr Fisher might have added that Kodak's determined push into China is also being spurred by a desire to take the fight to Fuji in what the Japanese company might regard as its own backyard, just as Fuji has done with Kodak in the US market.

Kodak's China gamble rests on taking control of three "second-tier" Chinese manufacturers of film and photographic paper and consolidating these into two companies, Kodak (China) Company Limited and Kodak (Wuxi) Company Limited.

The US company will own 80 per cent of Kodak China in partnership with photographic companies in Xiamen and Shantou, coastal special economic zones south of Shanghai. Kodak's stake in the Wuxi plant in Jiangsu province, west of Shanghai, will be 70 per cent.

Having established this platform, Mr Fisher hopes Kodak will shore up its dominance of the China market which has, in three years, moved in terms of number of exposures from 17th to third behind the US and Japan and is experiencing accelerating growth.

Mr Fisher hardly contains his enthusiasm when he describes the potential of a market where the annual usage rate of film is 0.4 of a roll for each household, compared with seven rolls in the US.

"If only half the people in China shot a single 36-exposure roll of film a year – a fraction the usage rate of other countries – that would swell the number of worldwide 'clicks' by 25 per cent," he says. "Each second, 500 more photos would be taken. That's the equivalent of adding another US or Japan to the world photographic market. China offers more potential photography than any other market in the world."

But the allure of China is certain not to have been lost on Kodak's competitors, who are investing heavily. Both Fuji and Agfa have strong positions in the market, and Lucky, China's own leading brand, is modernising its facilities.

George Fisher: Kodak's chief executive has his reputation tied to the company's China strategy AP

Kodak will have to fight all the way to grow market share. It also faces a tricky process of taking over state-run factories which tend to be overmanned and full of outdated equipment. The task of imposing western management standards on Chinese enterprises is far from easy and has stymied attempts by other western companies to absorb local facilities.

However, Mr Fisher appears undaunted, while conceding that "execution", in which between 2,000 and 3,000 people will be added to Kodak's payroll, poses the biggest risk.

Indeed, he has been encouraged by Kodak's progress in China in the last three or four years, where it has moved from third to first place in sales of photographic paper, ahead of Agfa and Fuji, and, having lagged a distant second behind Fuji in film sales, is now challenging the Japanese company.

Revenues from China reached $250m last year and sales are growing at about 40 per cent annually. Kodak has opened 3,600 "Kodak Express" stores across the country. Mr Fisher and Kodak are not hedging their bets on China. They can hardly afford to.

Banks bear brunt of Malaysia's financial crisis

Debt burdens herald more poor reporting seasons ahead, writes **Sheila McNulty**

The Malaysian reporting season just ended has revealed that the financial crisis has been especially damaging to banking, construction and car companies but has left plantation companies relatively unscathed and actually boosted the lottery business.

The economic slowdown has particularly hit the financial sector, which is burdened by domestic loans equivalent to 170 per cent of gross domestic product – the highest ratio in south-east Asia.

As the economy has slowed, so has the repayment of loans. Economists predict that by the middle of next year almost one in four loans in Malaysia will be unpaid.

Such projections have financial institutions setting aside large provisions, which have dragged down their bottom lines.

The sector's worst results were reported by Sime Bank, which reported pre-tax losses of M$1.81bn (US$469m) for the six months to the end of December and was forced to set aside M$1.61bn in provisions.

Sime Bank's losses were so considerable the authorities said they would investigate and one of the country's top banking groups, Rashid Hussain, took over the institution.

Even Malayan Banking (Maybank), the country's biggest, strongest and most conservative financial institution, reported a 29 per cent drop in net profit to M$463.5m for the six months to end-December. Maybank set aside M$711.5m to cover its potential bad loans.

As the pressure has built on banks, they have curtailed lending, making it difficult to purchase vehicles. Car sales, which are expected to drop more than 60 per cent this year, began falling toward the end of 1997.

EON, which distributes the Proton "national car", reported a 5.6 per cent fall in profit to M$429.2m for the year to end-December after used car sales fell 84 per cent to 2,930 vehicles.

Construction companies are having an equally hard time. Not only is it difficult for them to obtain financing, but in some cases the authorities have stopped projects to reduce expensive imports.

The government deferred and then assumed control of Ekran's largest project – the Bakun hydro-electric dam – when the financial crisis took hold.

Ekran has been negotiating compensation ever since. In the meantime, it reported pre-tax losses of M$1.33m for the half-year ended in December, swinging from a pre-tax profit of M$120.7m in the year-earlier period.

Yeoh Keat Seng, first vice-president at Smith Zain Securities, says the bad results by Malaysia's companies are not over. "We think they will be worse in the one or two reporting seasons to come."

Analysts note, however, that plantation companies, which can earn foreign currency, have held their own despite the depreciation in the ringgit and the drop in domestic consumer demand – factors which are hurting other sectors.

The country's largest plantation company, Golden Hope Plantations, largely credits better palm prices for the 30 per cent rise in its net profit to M$140.6m for the half-year to December. It is expecting to an even better performance in the second half.

But analysts warn that the months-old drought and smog from forest fires in neighbouring Indonesia might start to effect commodity yields and, therefore, are not overly bullish on plantation companies.

Audrey Ho, head of research at Mohaiyani Research, says this is a good time to consider what she calls "recession-proof" companies, such as lottery provider Tanjong.

Its net profit rose 38 per cent to M$250.8m for the year to end-January.

"You are buying a dream," Ms Ho explains. "It's still affordable at M$1 a bet."

TMC P.I.M.B.S. First Financing PLC

(the "Issuer")

(Incorporated with limited liability under the laws of England and Wales)

NOTICE OF A MEETING

of the holders of the £250,000,000 Mortgage Backed Floating Rate Notes due 2029 of the Issuer

(the "Noteholders" and the "Notes" respectively)

NOTICE IS HEREBY GIVEN that a Meeting of the Noteholders convened by the Issuer will be held at 65 Holborn Viaduct, London EC1A 2DY on Monday, 15th June 1998 at 11.25am (London time) (or as soon thereafter as the meeting of the holders of TMC P.I.M.B.S. PLC notes concludes) for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated 26th June 1989 made between, *inter alia*, the Issuer and Morgan Guaranty Trust Company of New York, London office, as trustee for the Noteholders (the "Trustee"), and constituting the Notes (the "Trust Deed" as amended by a supplemental trust deed dated 27th September 1989 made between the Issuer and the Trustee and a supplemental trust deed dated 6th December 1989 made between, *inter alia*, the Issuer and the Trustee (the "Supplemental Trust Deeds")).

PROPOSAL

The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes (the "Conditions") and to the Trust Deed and other agreements in order to facilitate the redemption of the Notes.

Resolution 1 provides for the deletion of the requirements relating to the principal amount of the Notes required to be outstanding at the time the Issuer exercises the option to redeem the Notes. The notice period to be given to the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolutions 1 and 2.

If the Extraordinary Resolutions are passed, it is anticipated that notice will be given to the Trustee and Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and through Euroclear and Cedel at least 7 days before the redemption date.

In accordance with its normal practice, the Trustee expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to be stated that it has no objection to the Resolutions being submitted to the Noteholders for their consideration.

EXTRAORDINARY RESOLUTIONS

"THAT this Meeting of the holders of the £250,000,000 Mortgage Backed Floating Rate Notes due 2029 (the "Notes") of TMC P.I.M.B.S. First Financing PLC (the "Issuer") constituted by a trust deed dated 26th June 1989 and made between, *inter alia*, the Issuer and Morgan Guaranty Trust Company of New York, London office (the "Trustee") (the "Trust Deed" as amended by a supplemental trust deed dated 27th September 1989 made between the Issuer and the Trustee and a supplemental trust deed dated 6th December 1989 made between, *inter alia*, the Issuer and the Trustee (the "Supplemental Trust Deeds")) hereby:

1. Sanctions and approves the modification and amendment of the terms and conditions of the Notes (the "Conditions") by the deletion in its entirety of Condition 5(e) and its replacement with the following:

   "On giving not less than 5 Business Days notice to the Noteholders in respect of the relevant Tranche, the Issuer may, on any Interest Payment Date relating to a Tranche, redeem all (but not some only) of the Notes in such Tranche together with interest accrued to the date of redemption, provided that, prior to giving any such notice, the Issuer shall have satisfied the Trustee that it will have funds not subject to the interest of any other person sufficient to fulfil its obligations in respect of such Tranche";

2. Sanctions and approves the modification and amendment of the terms and conditions of the Notes (the "Conditions") by:

   (a) amendment of the Supplemental Memorandum dated 27th September 1989 by inserting immediately after the words "31st October, 31st January, 30th April, 31st July" in the definition of Interest Payment Date the words "but so that with effect from 31st July 1998 each subsequent Interest Payment Date shall be the last Business Day of each month";

   (b) the insertion of the words "up to and including the period ending on (and including) 30th July 1998" after the words "subsequent period" in the second paragraph of Condition 4(a);

   (c) the insertion of the words "and after the Interest Period ending on (and including) 30th July 1998 each successive Interest Period thereafter shall begin on (and include) an Interest Payment Date and end on (and include) the day immediately preceding the next Interest Payment Date" at the end of the first sentence of paragraph 2 of Condition 4(a);

   (d) the replacement of the word "five" in the first line of Condition 4(b) with the word "two".

3. Sanctions, approves and authorises the Trustee to enter into a supplemental trust deed and such other agreements or documents (if any) as it may determine, on such terms as it, in its sole discretion, may agree, to give effect to Resolutions 1 and 2 above.

   Expressions defined in the Notes or in the Trust Deed (as amended by the Supplemental Trust Deeds) shall have the same meanings when used in these resolutions".

VOTING AND QUORUM

1. A Noteholder wishing to attend and vote at the Meeting in person must produce at the Meeting either his definitive Note(s) or a valid voting certificate or certificates issued by a Paying Agent relative to the Note(s) in respect of which he wishes to vote.

   A Noteholder not intending to attend and vote at the Meeting in person may either deliver his Note(s) or voting certificate(s) to the person whom he wishes to attend on his behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of any of the Paying Agents set out below) instructing the Paying Agent to appoint one or more proxies to attend and vote at the Meeting in accordance with his instructions.

   Notes may be deposited with a Paying Agent or (to the satisfaction of the Paying Agent) held to its order or under its control or blocked in an account with Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System or Cedel Bank, société anonyme, for the purpose of obtaining voting certificates or giving voting instructions in respect of the Meeting, in each case until 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjourned such Meeting), but not thereafter. Any Note(s) so deposited or held or blocked will be released at the conclusion of the Meeting (or, if applicable, any adjourned such Meeting) or upon surrender of the voting certificate(s) or, not less than 48 hours before the commencement of the Meeting (or, if applicable, any adjourned such Meeting), the revocation of the voting instructions given in respect thereof.

2. The quorum required at the Meeting is one or more persons present holding Notes or voting certificates or being proxies and together holding or representing not less than two-thirds of the aggregate principal amount of the Notes for the time being outstanding. If a quorum is not present at the Meeting within the time prescribed by the Trust Deed, the Meeting will be adjourned and the Extraordinary Resolution will be considered at an adjourned Meeting (notice of which will be given to the Noteholders). The quorum at such an adjourned Meeting will be one or more persons present holding Notes or voting certificates or being proxies and together holding or representing not less than two-thirds of the aggregate principal amount of the Notes for the time being outstanding.

3. Every question submitted to the Meeting will be decided on a show of hands unless a poll is duly demanded by the Chairman of the Meeting or by the Issuer, the Trustee or one or more persons present holding one or more Notes or voting certificates or being a proxies and holding or representing in the aggregate not less than two per cent of the Principal Amount Outstanding of the Notes. On a show of hands every person who is present in person and produces a Note or voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each £1 in principal amount of the Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy. Without prejudice to the terms of any block voting instruction, a voter shall not be obliged to exercise all the votes to which he is entitled or to cast all the votes which he exercises in the same way.

4. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than 75 per cent of the votes cast. If passed, an Extraordinary Resolution will be binding upon all the Noteholders, whether or not present at the Meeting and whether or not voting, and upon all holders of Coupons appertaining to the Notes.

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York,
60 Victoria Embankment, London EC4Y 0JP

PAYING AGENT

Banque Paribas (Luxembourg) S.A.
10A Boulevard Royal, L-2093 Luxembourg

This Notice is given by:
TMC P.I.M.B.S. First Financing PLC
Sir Williams Atkins House
Ashley Avenue
Epsom
Surrey KT18 5AS

Dated May 21st, 1998

Noteholders whose Notes are held by Euroclear or Cedel Bank should contact the following for further information:

Euroclear: Custody Operations Department (telephone Brussels +322 5191211; telex: 61025)
Cedel Bank: Corporate Action Department (telephone Luxembourg +352 448 821; telex: 2791).

This Notice does not constitute an offer of securities of the Issuer.

TMC P.I.M.B.S. PLC

(the "Issuer")

(Incorporated with limited liability under the laws of England and Wales)

NOTICE OF A MEETING

of the holders of the £250,000,000 Mortgage Backed Floating Rate Notes due 2030 of the Issuer

(the "Noteholders" and the "Notes" respectively)

NOTICE IS HEREBY GIVEN that a Meeting of the Noteholders convened by the Issuer will be held at 65 Holborn Viaduct, London EC1A 2DY on Monday, 15th June 1998 at 11.20am (London time) (or as soon thereafter as the meeting of the holders of TMC Mortgage Securities No. 11 PLC notes concludes) for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated 26th June 1989 made between, *inter alia*, the Issuer and Morgan Guaranty Trust Company of New York, London office, as trustee for the Noteholders (the "Trustee"), and constituting the Notes (the "Trust Deed" as amended by a supplemental trust deed dated 6th December 1989 made between, *inter alia*, the Issuer and the Trustee (the "Supplemental Trust Deed")).

PROPOSAL

The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes (the "Conditions") and to the Trust Deed and other agreements in order to facilitate the redemption of the Notes.

Resolution 1 provides for the deletion of the requirements relating to the principal amount of the Notes required to be outstanding at the time the Issuer exercises the option to redeem the Notes. The notice period to be given to the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolutions 1 and 2.

If the Extraordinary Resolutions are passed, it is anticipated that notice will be given to the Trustee and Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and through Euroclear and Cedel at least 7 days before the redemption date.

In accordance with its normal practice, the Trustee expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to be stated that it has no objection to the Resolutions being submitted to the Noteholders for their consideration.

EXTRAORDINARY RESOLUTIONS

"THAT this Meeting of the holders of the £250,000,000 Mortgage Backed Floating Rate Notes due 2030 (the "Notes") of TMC P.I.M.B.S. PLC (the "Issuer") constituted by a trust deed dated 26th June 1989 and made between, *inter alia*, the Issuer and Morgan Guaranty Trust Company of New York, London office (the "Trustee") (the "Trust Deed" as amended by a supplemental trust deed dated 6th December 1989 made between, *inter alia*, the Issuer and the Trustee (the "Supplemental Trust Deed")) hereby:

1. Sanctions and approves the modification and amendment of the terms and conditions of the Notes (the "Conditions") by the deletion in its entirety of Condition 5(e) and its replacement with the following:

   "On giving not less than 5 Business Days notice to the Noteholders in respect of the relevant Tranche, the Issuer may, on any Interest Payment Date relating to a Tranche, redeem all (but not some only) of the Notes in such Tranche together with interest accrued to the date of redemption, provided that, prior to giving any such notice, the Issuer shall have satisfied the Trustee that it will have funds not subject to the interest of any other person sufficient to fulfil its obligations in respect of such Tranche";

2. Sanctions and approves the modification and amendment of the terms and conditions of the Notes (the "Conditions") by:

   (a) amendment of the Supplemental Memorandum dated 19th June 1989 by inserting immediately after the words "27th August, 30th November, 28th February, 31st May" in the definition of Interest Payment Date the words "but so that with effect from 31st August 1998 each subsequent Interest Payment Date shall be the last Business Day of each month";

   (b) the insertion of the words "up to and including the period ending on (and including) 27th August 1998" after the words "subsequent period" in the second paragraph of Condition 4(a);

   (c) the insertion of the words "and after the Interest Period ending on (and including) 27th August 1998 each successive Interest Period thereafter shall begin on (and include) an Interest Payment Date and end on (and include) the day immediately preceding the next Interest Payment Date" at the end of the first sentence of paragraph 2 of Condition 4(a);

   (d) the replacement of the word "five" in the first line of Condition 4(b) with the word "two".

3. Sanctions, approves and authorises the Trustee to enter into a supplemental trust deed and such other agreements or documents (if any) as it may determine, on such terms as it, in its sole discretion, may agree, to give effect to Resolutions 1 and 2 above.

   Expressions defined in the Notes or in the Trust Deed (as amended by the Supplemental Trust Deed) shall have the same meanings when used in these resolutions".

VOTING AND QUORUM

1. A Noteholder wishing to attend and vote at the Meeting in person must produce at the Meeting either his definitive Note(s) or a valid voting certificate or certificates issued by a Paying Agent relative to the Note(s) in respect of which he wishes to vote.

   A Noteholder not intending to attend and vote at the Meeting in person may either deliver his Note(s) or voting certificate(s) to the person whom he wishes to attend on his behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of any of the Paying Agents set out below) instructing the Paying Agent to appoint one or more proxies to attend and vote at the Meeting in accordance with his instructions.

   Notes may be deposited with a Paying Agent or (to the satisfaction of the Paying Agent) held to its order or under its control or blocked in an account with Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System or Cedel Bank, société anonyme, for the purpose of obtaining voting certificates or giving voting instructions in respect of the Meeting, in each case until 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjourned such Meeting), but not thereafter. Any Note(s) so deposited or held or blocked will be released at the conclusion of the Meeting (or, if applicable, any adjourned such Meeting) or upon surrender of the voting certificate(s) or, not less than 48 hours before the commencement of the Meeting (or, if applicable, any adjourned such Meeting), the revocation of the voting instructions given in respect thereof.

2. The quorum required at the Meeting is one or more persons present holding Notes or voting certificates or being proxies and together holding or representing not less than two-thirds of the aggregate principal amount of the Notes for the time being outstanding. If a quorum is not present at the Meeting within the time prescribed by the Trust Deed, the Meeting will be adjourned and the Extraordinary Resolution will be considered at an adjourned Meeting (notice of which will be given to the Noteholders). The quorum at such an adjourned Meeting will be one or more persons present holding Notes or voting certificates or being proxies and together holding or representing not less than two-thirds of the aggregate principal amount of the Notes for the time being outstanding.

3. Every question submitted to the Meeting will be decided on a show of hands unless a poll is duly demanded by the Chairman of the Meeting or by the Issuer, the Trustee or one or more persons present holding one or more Notes or voting certificates or being a proxies and holding or representing in the aggregate not less than two per cent of the Principal Amount Outstanding of the Notes. On a show of hands every person who is present in person and produces a Note or voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each £1 in principal amount of the Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy. Without prejudice to the terms of any block voting instruction, a voter shall not be obliged to exercise all the votes to which he is entitled or to cast all the votes which he exercises in the same way.

4. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than 75 per cent of the votes cast. If passed, an Extraordinary Resolution will be binding upon all the Noteholders, whether or not present at the Meeting and whether or not voting, and upon all holders of Coupons appertaining to the Notes.

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York,
60 Victoria Embankment, London EC4Y 0JP

PAYING AGENT

Banque Paribas (Luxembourg) S.A.
10A Boulevard Royal, L-2093 Luxembourg

This Notice is given by:
TMC P.I.M.B.S. PLC
Sir Williams Atkins House
Ashley Avenue
Epsom
Surrey KT18 5AS

Dated May 21st, 1998

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Cedel Bank: Corporate Action Department (telephone Luxembourg +352 448 821; telex: 2791).

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ENTERTAINMENT FRENCH MEDIA GROUP INTERESTED IN DEAL WITH SEAGRAM FOLLOWING A SUCCESSFUL BID

Canal Plus eyes PolyGram films

By Alice Rawsthorn

Canal Plus, the French media group, is interested in acquiring the film division of PolyGram, the Dutch entertainment company for which Seagram, the Canadian drinks group, has mounted a $10bn-plus bid.

Selling PolyGram's film business to Canal Plus would prevent Europe's largest film production and distribution company, which has released a series of box office hits including *Trainspotting* and *Bean*, from being folded into Universal, Seagram's Hollywood film studio.

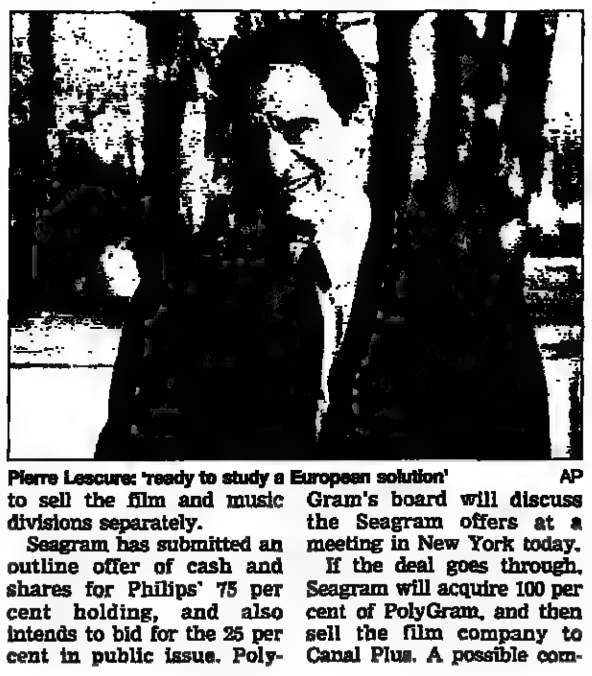
PolyGram has invested $1.2bn in establishing its film company in a bid to establish the first European rival to the US studios. The film division, which owns the rights to such classic TV series as *Thunderbirds* and *The Prisoner*, is still in the red, but scheduled to break even next year.

Seagram is principally interested in merging PolyGram's record labels with its Universal Music subsidiary. It is believed to be willing to sell the film division to avoid a political row in Europe.

Pierre Lescure, Canal Plus chairman, said yesterday, that his company was "ready to study a European solution" for PolyGram's film business. Canal Plus declined to comment on how the "solution" might be structured.

However, it is understood the French group made informal approaches earlier this week to PolyGram, Philips, its Dutch parent company, and Seagram.

The Philips board, which met in Amsterdam yesterday to discuss Seagram's offer, is believed to have decided that it would be too complicated to sell the film and music divisions separately.



Pierre Lescure: 'ready to study a European solution' AP

Seagram has submitted an outline offer of cash and shares for Philips' 75 per cent holding, and also intends to bid for the 25 per cent in public issue. PolyGram's board will discuss the Seagram offers at a meeting in New York today.

If the deal goes through, Seagram will acquire 100 per cent of PolyGram, and then sell the film company to Canal Plus. A possible complication is the threat of an antitrust investigation into the merger of PolyGram and Seagram's US music interests, which would have a combined market share of 24 per cent. A lengthy investigation would delay completion of the Seagram deal, and the proposed sale to Canal Plus.

Canal Plus has substantial pay-TV interests in France, Italy and Spain, and recently increased its investment in feature film production. It clinched a deal this spring to invest $100m in a co-production joint venture with Warner Bros, the US film studio.

Acquiring PolyGram's film business would turn Canal Plus into Europe's most powerful film group, and reduce its reliance on the Hollywood studios as film suppliers. Canal Plus already has a long-term supply deal with PolyGram's film division.

Ifil to make L647bn cash call

By Paul Betts in Milan

Ifil, the industrial holding of Italy's Agnelli family, yesterday announced a L647bn ($368m) capital increase to help fund the development of its investments in the banking, leisure and retailing sectors.

The quoted company, 50.7 per cent controlled by the Agnelli Ifi holding group, also said consolidated group profits rose nearly 50 per cent last year to L505.5bn.

It raised its dividend on both ordinary and savings shares by L10, to L140 and L160 respectively.

The cash call involves an offer of four new ordinary shares and a free warrant for every 40 shares held and four new savings shares and a free warrant for every 40 savings shares.

The new ordinary shares are priced at L8,000 each, while the savings shares will be L4,800. Ifil ordinary shares have been trading at just over L9,000, while the savings shares have been changing hands at L5,350.

The issue will raise a total of L518bn, while the exercise of the warrants will produce an additional L129bn. Ifi said it would take up all its rights.

Ifil last year completed a series of deals including the acquisition of a stake in Istituto Bancario San Paolo di Torino, which is merging with the IMI banking group.

It acquired control of the Worms group of France and masterminded the retailing alliance between Rinascente and Auchan, the French company.

The holding company, headed by Umberto Agnelli, has sought to diversify its portfolio to reduce the weight of its car interests.

Ifil controls 12.7 per cent of the Fiat automotive group. However, its diversification means this accounts for only about 28 per cent of total assets.

Mannesmann telecoms arm lifts revenues 67%

By Ralph Atkins in Bonn

Mannesmann Arcor, one of Germany's new telecoms groups, lifted turnover 67 per cent to DM380m ($213m) in the three months after full liberalisation of the market on January 1, with half the increase coming from private customers, according to results released yesterday by Mannesmann, its parent.

The strong growth suggests that Mannesmann Arcor, which said it was carrying 7m minutes of conversation a day on its fixed-line network, is making significant inroads to the market dominated by Deutsche Telekom.

Mannesmann Mobilfunk, which operates D2, Germany's largest digital mobile network, lifted turnover 34 per cent to DM1.6bn in the quarter. No profit figures were released, but Mannesmann also said its engineering businesses would see a substantial improvement this year.

Meanwhile, o.tel.o, the rival fixed-line telecoms company owned by the Veba and RWE industrial conglomerates, yesterday unveiled a change in strategy in the hope of overcoming customer hesitancy towards new services.

It said it would join Mannesmann Arcor in offering "call by call" use of its services without any need to pre-register as a customer. "Call by call" services are available by dialing a five-digit code.

O.tel.o said that its "pre-selection" business – by which customers contract to a new carrier and need not use an additional code – was proving "a little slow".

However, the group said customers wanted to test the new telecoms services available since liberalisation and that o.tel.o had a very high recognition rate. It added that demand from large and family-owned businesses was running ahead of expectations.

O.tel.o may have suffered by delaying the launch of its public voice services until April.

This week Viag, the Munich-based conglomerate, indicated it was looking to expand its nascent telecoms operations in eastern Europe, alongside its energy interests, with Hungary and possibly the Czech Republic as priorities.

Viag's German mobile services would begin "in late summer", a few months later than expected.

ENI rises despite decline in sales

By Paul Betts

ENI, the Italian oil and gas group, yesterday reported a 3 per cent increase in operating income to L3,901bn ($2.2bn) in the first quarter, in spite of lower sales of L16,316bn.

It is the first time the company has published quarterly operating results and reflects the imminent sale by the Italian Treasury of a fourth tranche of ENI shares.

The Treasury is expected to sell a further stake of about 12 per cent, raising around L12,000bn. The latest sell-off will take the government's stake in the oil group below 50 per cent.

ENI said the 3 per cent rise in first-quarter operating income was achieved in spite of a 33.8 per cent fall in oil prices.

The decline was offset by higher volumes, the group's mixed business portfolio and a reduction in fixed costs and overheads following disposals and streamlining.

Capital expenditures in the quarter rose 42.3 per cent to L2,184bn, concentrated mainly in exploration and production. Net borrowings fell sharply, from L15,587bn at the end of December 1997 to L10,849bn, because of seasonal factors as well as capital gains from the sale of shares in its Saipem oilfield services subsidiary and the Nuovo Pignone engineering company.

ENI sold 115m Saipem shares on the market, making a L600bn capital gain. It made a further L100bn gain from the sale of a 9 per cent stake in Nuovo Pignone to General Electric of the US.

NEWS DIGEST

MOTOR INDUSTRY

GM moves to stem union dissent at Adam Opel

General Motors moved swiftly to reaffirm its commitment to its Adam Opel subsidiary in Germany yesterday after workers representatives warned they would delay plans to replace the company's chairman unless their concerns were met.

GM said signs of "clear mutual understanding" and "transparency" in discussions with union leaders regarding its plans in Europe and the future status of Opel, "would further strengthen the role and position of Adam Opel as the lead unit in GM's European and International Operations".

The move followed a statement from employee representatives on Opel's supervisory board that their backing for the replacement of David Herman as Opel's chairman by Gary Cowger was "dependent on the on-going structural discussions with General Motors. Before personnel matters can be decided on, the issues concerning Adam Opel's self-sufficiency and competence have to be mutually resolved".

The two statements reflected jockeying between GM and its German unions over Opel's future. Earlier in the day, the US group confirmed Mr Herman had asked to step down after almost six years as Opel chairman to take over GM's operations in the former Soviet Union. His replacement by Mr Cowger is to be discussed by Opel's supervisory board on June 9.

Graham Bowley, Frankfurt and Haig Simonian, London

SOUTH AFRICA

Investec posts 56% rise

Investec, the acquisitive and fast growing South African financial services group, yesterday revealed a 56 per cent increase to R570m ($112m) in net profit for the year to March.

Stephen Koseff, chief executive, said the results were boosted by the inclusion for the first time of a full year's results from Carr Sheppards, the UK-based broking and private client portfolio management operation, and by the profits of associates such as Fedsure, the South African life assurer and financial group.

In the past two months, Investec has agreed to buy Hambros and Guinness Mahon, the UK merchant banks. Earlier in the financial year, it won a merchant banking licence in Australia, bought a private bank in Mauritius, acquired US securities company Ernst and Co, and increased its stake in Israel General Bank from 53.4 per cent to 63.5 per cent.

Investec has become one of South Africa's biggest international asset management groups and will have a total of R328.3bn under management, although Mr Koseff acknowledged the group was "still very small from a global point of view". He said the asset management businesses of Guinness Flight Hambro and Investec would be combined within five or six weeks to create a global business.

Investec's total income rose 39 per cent to R1.74bn, while the ratio of operating expenses to total income fell to 54.7 per cent from the previous year's 56.2 per cent. Diluted earnings per share rose 40 per cent to 780.3 cents. The company declared a final dividend of 220 cents, up from 160 cents the previous year. Over 10 years diluted earnings per share have risen at a compound rate of 30.4 per cent a year.

Victor Mallet, Johannesburg

Standard Bank in Malawi buy

South Africa's Standard Bank group is continuing its expansion into sub-Saharan Africa with the purchase of a 72 per cent stake in Investment and Development Bank of Malawi Financial Services (Indefinance) for $10m.

Malawi will be the 15th country on the continent, outside South Africa, where Standard Bank has a presence. The bank has a profitable business in the region focusing mainly on commercial banking and corporate finance rather than retail banking, and the African operations account for about 15 per cent of group profits.

Tony Wright, deputy managing director responsible for Standard's African banking group, said there would now be a period of consolidation while the group continued to invest in satellite links and other new technology, although the bank was considering the possibility of an operation in Angola.

Arthur Schwarz, a director of the Malawian group selling Indefinance, said the arrival of Standard Bank would be like a tonic "to bring our somewhat sleepy institutions kicking and screaming into the 21st century". South Africa provides more than a third of Malawi's imports, and takes 13 per cent of its exports. **Victor Mallet**

Fall in exports hits Amcoal

decline in export revenue dragged down profits at Anglo American Coal Corporation, the South African group, which yesterday reported almost no growth in earnings for the year to March .

Earnings per share fell by 2.7 per cent to R33.71, reflecting an increased number of shares in issue after capitalisation awards. Dividends will be 10.6 per cent higher at R14.60 a share for shareholders who decide to take their payout in the form of cash rather than additional shares. Export earnings for the year dropped, in spite of a rise in tonnage and a weaker rand/dollar exchange rate. Amcoal attributed the decline to smaller growth in levels of internationally traded steam coal, at about 9m tons. This, together with a decision by several large consumers to reduce stock levels, led to reductions in spot prices in the second half of 1997 and in the longer term contract prices for 1998 deliveries.

Greta Steyn, Johannesburg

NETHERLANDS

ABN Amro denies US buy

ABN Amro, the Dutch bank, yesterday dismissed as "outright nonsense" a newspaper report it was in advanced talks to buy Bear Stearns, the US investment bank. Bear Stearns also denied it was in talks with anyone.

"There is no smoke and no fire," ABN Amro said of the report. "We've always said we're not after a big US investment bank." With a market value of about $6.1bn, Bear Stearns is less than one fifth the size of the Dutch bank.

ABN Amro said it was satisfied with its strategy of building a regional presence in the US Midwest. "We don't feel our franchise is at all threatened by First Chicago-Banc One", the $29.5bn takeover announced last month. "We're happy where we are in the US, but we would defend our patch."

The Dutch bank noted, however, that it was flexible enough to deal with changing circumstances. For example, it had bought BZW's investment banking operations in Australia and New Zealand and a 75 per cent stake in Thailand's Bank of Asia, after saying previously it was not interested in acquisitions in the region. **Clay Harris, Banking Correspondent**

COMMERZBANK

Equity chiefs appointed

Germany's Commerzbank yesterday named its first global heads of equities trading and sales.

Mehmet Dalman, head of Commerzbank Global Equities, described as a "major coup" the recruitment of Philip Wale from Goldman Sachs as head of equities trading. Mr Wale was co-head of European shares, responsible for continental equities, at Goldman, where he had worked for 10 years.

Jacqueline O'Neill has joined as head of sales after eight years at Paribas, where she was a senior account manager. The sales and trading operation is due to start customer business during the summer. **Clay Harris**

TMC P.I.M.B.S. Second Financing PLC

(the "Issuer")

(Incorporated with limited liability under the laws of England and Wales)

NOTICE OF A MEETING

of the holders of the £30,000,000 Mortgage Backed Floating Rate Notes due 2030 of the Issuer

(the "Noteholders" and the "Notes" respectively)

NOTICE IS HEREBY GIVEN that a Meeting of the Noteholders convened by the Issuer will be held at 65 Holborn Viaduct, London EC1A 2DY on Monday, 15th June 1998 at 11.30am (London time) (or as soon thereafter as the meeting of the holders of TMC P.I.M.B.S. First Financing PLC notes concludes) for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated 26th June 1989 made between, *inter alia*, the Issuer and Morgan Guaranty Trust Company of New York, London office, as trustee for the Noteholders (the "Trustee"), and constituting the Notes (the "Trust Deed" as amended by a supplemental trust deed dated 31st October 1989 made between the Issuer and the Trustee and a supplemental trust deed dated 6th December 1989 made between, *inter alia*, the Issuer and the Trustee (the "Supplemental Trust Deeds")).

PROPOSAL

The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes (the "Conditions") and to the Trust Deed and other agreements in order to facilitate the redemption of the Notes.

Resolution 1 provides for the deletion of the requirements relating to the principal amount of the Notes required to be outstanding at the time the Issuer exercises the option to redeem the Notes. The notice period to be given to the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 6 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolutions 1 and 2.

If the Extraordinary Resolutions are passed, it is anticipated that notice will be given to the Trustee and Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and through Euroclear and Cedel at least 7 days before the redemption date.

In accordance with its normal practice, the Trustee expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to be stated that it has no objection to the Resolutions being submitted to the Noteholders for their consideration.

EXTRAORDINARY RESOLUTIONS

"THAT this Meeting of the holders of the £30,000,000 Mortgage Backed Floating Rate Notes due 2030 (the "Notes") of TMC P.I.M.B.S. Second Financing PLC (the "Issuer") constituted by a trust deed dated 26th June 1989 and made between, *inter alia*, the Issuer and Morgan Guaranty Trust Company of New York, London office (the "Trustee") (the "Trust Deed" as amended by a supplemental trust deed dated 31st October 1989 and made between the Issuer and the Trustee and a supplemental trust deed dated 6th December 1989 made between, *inter alia*, the Issuer and the Trustee (the "Supplemental Trust Deeds")) hereby:

1. Sanctions and approves the modification and amendment of the terms and conditions of the Notes (the "Conditions") by the deletion in its entirety of Condition 5(c) and its replacement with the following:

   "On giving not less than 5 Business Days notice to the Noteholders in respect of the relevant Tranche, the Issuer may, on any Interest Payment Date relating to a Tranche, redeem all (but not some only) of the Notes in such Tranche together with interest accrued to the date of redemption, provided that, prior to giving any such notice, the Issuer shall have satisfied the Trustee that it will have funds not subject to the interest of any other person sufficient to fulfil its obligations in respect of such Tranche";

2. Sanctions and approves the modification and amendment of the terms and conditions of the Notes (the "Conditions") by:
   (a) amendment of the Supplemental Memorandum dated 31st October 1989 by inserting immediately after the words "2nd January, 2nd July" in the definition of Interest Payment Date the words "but so that with effect from 2nd July 1998 each subsequent Interest Payment Date shall be the last Business Day of each month, commencing with the last Business Day in July 1998";
   (b) the insertion of the words "up to and including the period ending on (and including) 1st July 1998" after the words "subsequent period" in the second paragraph of Condition 4(a);
   (c) the insertion of the words "and after the Interest Period ending on (and including) 1 July 1998 the following Interest Period shall begin on (and include) 2nd July 1998 and end on (and include) 30th July 1998 and each successive Interest Period thereafter shall begin on (and include) an Interest Payment Date and end on (and include) the day immediately preceding the next Interest Payment Date" at the end of the first sentence of paragraph 2 of Condition 4(a);
   (d) the replacement of the word "five" in the first line of Condition 4(b) with the word "two".

3. Sanctions, approves and authorises the Trustee to enter into a supplemental trust deed and such other agreements or documents (if any) as it may determine, on such terms as it, in its sole discretion, may agree, to give effect to Resolutions 1 and 2 above.

   Expressions defined in the Notes or in the Trust Deed (as amended by the Supplemental Trust Deeds) shall have the same meanings when used in these resolutions".

VOTING AND QUORUM

1. A Noteholder wishing to attend and vote at the Meeting in person must produce at the Meeting either his definitive Note(s) or a valid voting certificate or certificates issued by a Paying Agent relative to the Note(s) in respect of which he wishes to vote.

   A Noteholder not intending to attend and vote at the Meeting in person may either deliver his Note(s) or voting certificate(s) to the person whom he wishes to attend on his behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of any of the Paying Agents set out below) instructing the Paying Agent to appoint one or more proxies to attend and vote at the Meeting in accordance with his instructions.

   Notes may be deposited with a Paying Agent or (to the satisfaction of the Paying Agent) held to its order or under its control or blocked in an account with Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System or Cedel Bank, société anonyme, for the purpose of obtaining voting certificates or giving voting instructions in respect of the Meeting, in each case until 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjourned such Meeting), but not thereafter. Any Note(s) so deposited or held or blocked will be released at the conclusion of the Meeting (or, if applicable, any adjourned such Meeting) or upon surrender of the voting certificate(s) or, not less than 48 hours before the commencement of the Meeting (or, if applicable, any adjourned such Meeting), the revocation of the voting instructions given in respect thereof.

2. The quorum required at the Meeting is one or more persons present holding Notes or voting certificates or being proxies and together holding or representing not less than two-thirds of the aggregate principal amount of the Notes for the time being outstanding. If a quorum is not present at the Meeting within the time prescribed by the Trust Deed, the Meeting will be adjourned and the Extraordinary Resolution will be considered at an adjourned Meeting (notice of which will be given to the Noteholders). The quorum at such an adjourned Meeting will be one or more persons present holding Notes or voting certificates or being proxies and together holding or representing not less than two-thirds of the aggregate principal amount of the Notes for the time being outstanding.

3. Every question submitted to the Meeting will be decided on a show of hands unless a poll is duly demanded by the Chairman of the Meeting or by the Issuer, the Trustee or one or more persons present holding one or more Notes or voting certificates or being a proxies and holding or representing in the aggregate not less than two per cent of the Principal Amount Outstanding of the Notes. On a show of hands every person who is present in person and produces a Note or voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each £1 in principal amount of the Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy. Without prejudice to the terms of any block voting instruction, a voter shall not be obliged to exercise all the votes to which he is entitled or to cast all the votes which he exercises in the same way.

4. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than 75 per cent of the votes cast. If passed, an Extraordinary Resolution will be binding upon all the Noteholders, whether or not present at the Meeting and whether or not voting, and upon all holders of Coupons appertaining to the Notes.

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York,
60 Victoria Embankment, London EC4Y 0JP

PAYING AGENT

Banque Paribas (Luxembourg) S.A.
10A Boulevard Royal, L-2093 Luxembourg

This Notice is given by:
TMC P.I.M.B.S. Second Financing PLC
Sir Williams Atkins House
Ashley Avenue
Epsom
Surrey KT18 5AS

Dated May 21st, 1998

Noteholders whose Notes are held by Euroclear or Cedel Bank should contact the following for further information:

Euroclear: Custody Operations Department (telephone Brussels +322 5191211; telex: 61025)
Cedel Bank: Corporate Action Department (telephone Luxembourg +352 448 821; telex: 2791).
This Notice does not constitute an offer of securities of the Issuer.

TMC P.I.M.B.S. Third Financing PLC

(the "Issuer")

(Incorporated with limited liability under the laws of England and Wales)

NOTICE OF A MEETING

of the holders of the £150,000,000 Mortgage Backed Floating Rate Slow Pay Notes due 2029 of the Issuer

(the "Noteholders" and the "Notes" respectively)

NOTICE IS HEREBY GIVEN that a Meeting of the Noteholders convened by the Issuer will be held at 65 Holborn Viaduct, London EC1A 2DY on Monday, 15th June 1998 at 11.35am (London time) (or as soon thereafter as the meeting of the holders of TMP P.I.M.B.S. Second Financing PLC notes concludes) for the purpose of considering and, if thought fit, passing the following Resolutions which will be proposed as Extraordinary Resolutions in accordance with the provisions of a trust deed dated 26th June 1989 made between, *inter alia*, the Issuer and Morgan Guaranty Trust Company of New York, London office, as trustee for the Noteholders (the "Trustee"), and constituting the Notes (the "Trust Deed" as amended by a supplemental trust deed dated 6th December 1989 made between, *inter alia*, the Issuer and the Trustee (the "Supplemental Trust Deed")).

PROPOSAL

The Issuer is intending, subject to the passing of the Extraordinary Resolutions, to redeem the Notes in full at 100 per cent of their principal amount (plus accrued interest). The Issuer has not yet determined the intended redemption date. However, redemption will only occur on an interest payment date.

The Extraordinary Resolutions set out below, if duly passed, will approve the making of amendments to the terms and conditions of the Notes (the "Conditions") and to the Trust Deed and other agreements in order to facilitate the redemption of the Notes.

Resolution 1 provides for the deletion of the requirements relating to the principal amount of the Notes required to be outstanding at the time the Issuer exercises the option to redeem the Notes. The notice period to be given to the Noteholders is also amended.

Resolution 2 reduces the interest period of the Notes from 3 months to 1 month and makes consequential amendments to the Conditions.

Resolution 3 authorises the Trustee to agree amendments to the Trust Deed and other agreements to give effect to Resolutions 1 and 2.

If the Extraordinary Resolutions are passed, it is anticipated that notice will be given to the Trustee and Noteholders of the redemption of the Notes on an interest payment date by publication in the Financial Times and through Euroclear and Cedel at least 7 days before the redemption date.

In accordance with its normal practice, the Trustee expresses no opinion on the merits of these proposals or the Extraordinary Resolutions contained in this Notice but has authorised it to be stated that it has no objection to the Resolutions being submitted to the Noteholders for their consideration.

EXTRAORDINARY RESOLUTIONS

"THAT this Meeting of the holders of the £150,000,000 Mortgage Backed Floating Rate Slow Pay Notes due 2029 (the "Notes") of TMC P.I.M.B.S. Third Financing PLC (the "Issuer") constituted by a trust deed dated 26th June 1989 and made between, *inter alia*, the Issuer and Morgan Guaranty Trust Company of New York, London office (the "Trustee") (the "Trust Deed" as amended by a supplemental trust deed dated 6yh December 1989 made between, *inter alia*, the Issuer and the Trustee (the "Supplemental Trust Deed")) hereby:

1. Sanctions and approves the modification and amendment of the terms and conditions of the Notes (the "Conditions") by the deletion in its entirety of Condition 5(c) and its replacement with the following:

   "On giving not less than 5 Business Days notice to the Noteholders in respect of the relevant Tranche, the Issuer may, on any Interest Payment Date relating to a Tranche, redeem all (but not some only) of the Notes in such Tranche together with interest accrued to the date of redemption, provided that, prior to giving any such notice, the Issuer shall have satisfied the Trustee that it will have funds not subject to the interest of any other person sufficient to fulfil its obligations in respect of such Tranche";

2. Sanctions and approves the modification and amendment of the terms and conditions of the Notes (the "Conditions") by:
   (a) amendment of the Supplemental Memorandum dated 6th December 1989 by inserting immediately after the words "31st January, 30th April, 31st July, 31st October" in the definition of Interest Payment Date the words "but so that with effect from 31st July 1998 each subsequent Interest Payment Date shall be the last Business Day of each month";
   (b) the insertion of the words "up to and including the period ending on (and including) 30th July 1998" after the words "subsequent period" in the second paragraph of Condition 4(a);
   (c) the insertion of the words "and after the Interest Period ending on (and including) 30th July 1998 each successive Interest Period thereafter shall begin on (and include) an Interest Payment Date and end on (and include) the day immediately preceding the next Interest Payment Date" at the end of the first sentence of paragraph 2 of Condition 4(a);
   (d) the replacement of the word "five" in the first line of Condition 4(b) with the word "two".

3. Sanctions, approves and authorises the Trustee to enter into a supplemental trust deed and such other agreements or documents (if any) as it may determine, on such terms as it, in its sole discretion, may agree, to give effect to Resolutions 1 and 2 above.

   Expressions defined in the Notes or in the Trust Deed (as amended by the Supplemental Trust Deed) shall have the same meanings when used in these resolutions".

VOTING AND QUORUM

1. A Noteholder wishing to attend and vote at the Meeting in person must produce at the Meeting either his definitive Note(s) or a valid voting certificate or certificates issued by a Paying Agent relative to the Note(s) in respect of which he wishes to vote.

   A Noteholder not intending to attend and vote at the Meeting in person may either deliver his Note(s) or voting certificate(s) to the person whom he wishes to attend on his behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of any of the Paying Agents set out below) instructing the Paying Agent to appoint one or more proxies to attend and vote at the Meeting in accordance with his instructions.

   Notes may be deposited with a Paying Agent or (to the satisfaction of the Paying Agent) held to its order or under its control or blocked in an account with Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System or Cedel Bank, société anonyme, for the purpose of obtaining voting certificates or giving voting instructions in respect of the Meeting, in each case until 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjourned such Meeting), but not thereafter. Any Note(s) so deposited or held or blocked will be released at the conclusion of the Meeting (or, if applicable, any adjourned such Meeting) or upon surrender of the voting certificate(s) or, not less than 48 hours before the commencement of the Meeting (or, if applicable, any adjourned such Meeting), the revocation of the voting instructions given in respect thereof.

2. The quorum required at the Meeting is one or more persons present holding Notes or voting certificates or being proxies and together holding or representing not less than two-thirds of the aggregate principal amount of the Notes for the time being outstanding. If a quorum is not present at the Meeting within the time prescribed by the Trust Deed, the Meeting will be adjourned and the Extraordinary Resolution will be considered at an adjourned Meeting (notice of which will be given to the Noteholders). The quorum at such an adjourned Meeting will be one or more persons present holding Notes or voting certificates or being proxies and together holding or representing not less than two-thirds of the aggregate principal amount of the Notes for the time being outstanding.

3. Every question submitted to the Meeting will be decided on a show of hands unless a poll is duly demanded by the Chairman of the Meeting or by the Issuer, the Trustee or one or more persons present holding one or more Notes or voting certificates or being a proxies and holding or representing in the aggregate not less than two per cent of the Principal Amount Outstanding of the Notes. On a show of hands every person who is present in person and produces a Note or voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each £1 in principal amount of the Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy. Without prejudice to the terms of any block voting instruction, a voter shall not be obliged to exercise all the votes to which he is entitled or to cast all the votes which he exercises in the same way.

4. To be passed, an Extraordinary Resolution requires a majority in favour consisting of not less than 75 per cent of the votes cast. If passed, an Extraordinary Resolution will be binding upon all the Noteholders, whether or not present at the Meeting and whether or not voting, and upon all holders of Coupons appertaining to the Notes.

PRINCIPAL PAYING AGENT

Morgan Guaranty Trust Company of New York,
60 Victoria Embankment, London EC4Y 0JP

PAYING AGENT

Banque Paribas (Luxembourg) S.A.
10A Boulevard Royal, L-2093 Luxembourg

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CREDIT LYONNAIS AFTER THE EUROPEAN COMMISSION'S CLEARANCE OF A RESCUE PLAN, FT WRITERS EVALUATE HOW THE BANK ACCUMULATED LOSSES AND WHAT THE FUTURE HOLDS

Brussels puts an end to four years of uncertainty

By Andrew Jack in Paris

Investors will start eyeing Crédit Lyonnais with renewed energy from today, now that four years of uncertainty over the future of the French bank have come to an end.

Of immediate interest to rival financial institutions will be the increased target of asset sales fixed by Brussels, which requires Crédit Lyonnais to reduce its balance sheet by FFr675bn ($113bn) on 1995 levels. That represents a significant increase from the FFr310bn stipulated in the original 1995 rescue plan.

However, a number of these asset sales – estimated at FFr200bn or more – have already taken place over the past three years, including much of the bank's network in South America, for example. Others – which include the closure of some 70 branches within France and the possible sale of some loan portfolios – will be relatively low-profile and may simply involve winding down activities or attracting specialist buyers.

The most important asset disposals – which were also necessary to meet the requirements of the original plan three years ago – are Crédit Lyonnais' principal remaining retail European banking activities outside France. Rising stock markets and recent strong interest in the financial sector across Europe will help the bank to realise values on its assets.

However, the attractiveness of the deals depends very much on the particular domestic markets in which it different subsidiaries are based. Crédit Lyonnais has a presence in Portugal and in Spain, for example, where analysts argue that finding buyers would be relatively problematic.

BfG, Crédit Lyonnais' German subsidiary, will also prove a difficult proposition. Traditionally, the bank has not found it easy to exercise control over the struggling subsidiary, although senior management changes have improved its power.

For Crédit Lyonnais itself, the sale may still result in a capital loss, given the high price at which it bought BfG, and the agreement it made to compensate remaining minority shareholders for any loss as a result of the sale of its stake.

More attractive is Crédit Lyonnais Belgium, a highly profitable subsidiary with which the Paris headquarters was particularly reluctant to part.

The Belgian disposal was also a condition in the 1995 plan, so far not yet respected, and Karel Van Miert, the EU competition commissioner, stressed it must now be sold before the end of this year.

Elsewhere, Brussels has imposed FFr64bn in asset sales outside Europe, which must take place in North America or Asia. The list is believed to exclude strategic assets such as the bank's principal and profitable New York or Tokyo operations.

In order to prevent the appearance of a forced sale that drives the price down, a list of assets has been agreed but is confidential.

A similar strategy of discretion helped Crédit Lyonnais to realise a strong profit last year from selling its Irish-based credit division, Woodchester.

If asset sales will attract some buyers, the strongest interest may come for Crédit Lyonnais itself. Brussels and Paris have reiterated the principle in the 1995 plan that the bank must be privatised, and advanced the deadline from the end of 1999 to October next year.

The French government has agreed, by that time, to reduce its stake to 10 per cent at most, and to adopt a strategy towards the sale that is "open, transparent and non-discriminatory" towards foreign buyers.

Brussels preferred the option of a trade sale, which would probably raise more money. But the French authorities have ultimately been given freedom to manage the process as they choose. They have left open the possibility of a trade sale, although the preferred option of Crédit Lyonnais' own management is for a flotation.

The bank's executives originally hoped for a two-stage process, by which a group of core "friendly" investors would first take about a third of the capital this September, providing an injection of funds to raise the bank's solvency levels and act as a defence against hostile bidders. A second step would be a stock market flotation.

That scenario may now need to be revised. The extended negotiations with Brussels mean the process may need to be delayed, or even a single-step sale used. Allianz, the German insurer, has expressed its willingness to take up to 10 per cent. Another Crédit Lyonnais ally, Nippon Life, may now be less predisposed, given the crisis in Asian markets.

Whatever happens, many analysts expect the bank to seek some FFr6bn-FFr7bn in additional capital to strengthen its Tier I solvency ratio. That may provide investors with an opportunity to buy new Crédit Lyonnais shares ahead of the privatisation.

Another chance may come through the sale of equity issued by the bank – as proposed in the new rescue plan – to buy out its super-dividend payments to the state and the continuing costs of the penalising loan it has made to CDR.

So how attractive would a participation in the bank prove? Catherine Woods, of J. P. Morgan, says that while the bank still needs to undertake significant restructuring, "Crédit Lyonnais does have a very good distribution franchise in France, and some strong divisions such as project and aircraft financing elsewhere."

Certainly, interest in the French banking sector has swollen considerably in recent months, as demonstrated by the price war over the privatisation of CIC. And taking a stake could provide the first step towards launching – or profiting from – a hostile bid. Compared with prospects two or three years ago, the future for the bank and its investors is looking up.

The high cost of the lost decade

Andrew Jack chronicles 10 years of poor management, bad timing and misjudgment

The enormous losses generated by Crédit Lyonnais – which the most pessimistic estimates put at FFr190bn ($31.8bn) – reflect a decade of bad timing, poor management and misjudgment by successive executives, regulators and French administrations alike.

By the time Edmond Alphandéry, the centre-right economics minister, ousted Jean-Yves Haberer from his role of chairman of the bank in 1993, the scene was set for accumulated losses of more than FFr20bn between 1992 and 1994.

But the problems began before Mr Haberer arrived as chairman in 1988, and they would continue long after the first of several rescue plans in 1994 under his successor, Jean Peyrelevade.

More than 75 separate judicial inquiries are currently under way examining allegations of fraud, corruption and political party financing linked to subsidiaries of the bank over the years. Lending to such figures as Bernard Tapie, the colourful French businessman and former politician, and Giancarlo Parretti, the Italian financier, is under scrutiny.

However, the bulk of the losses were linked less to corruption than to questionable commercial policies as the French economy moved into recession and to the methods used to clean up the mess they caused.

While there has never been any attempt to question the personal integrity of Mr Haberer, a former director of the French Treasury, a French parliamentary inquiry into the troubles at the bank in 1994 placed much of the blame on him and his autocratic management style.

His focus on expanding the balance sheet of the bank through heady loans, ambitious international acquisitions and cross-shareholdings in other French companies accounted for many of the subsequent problems.

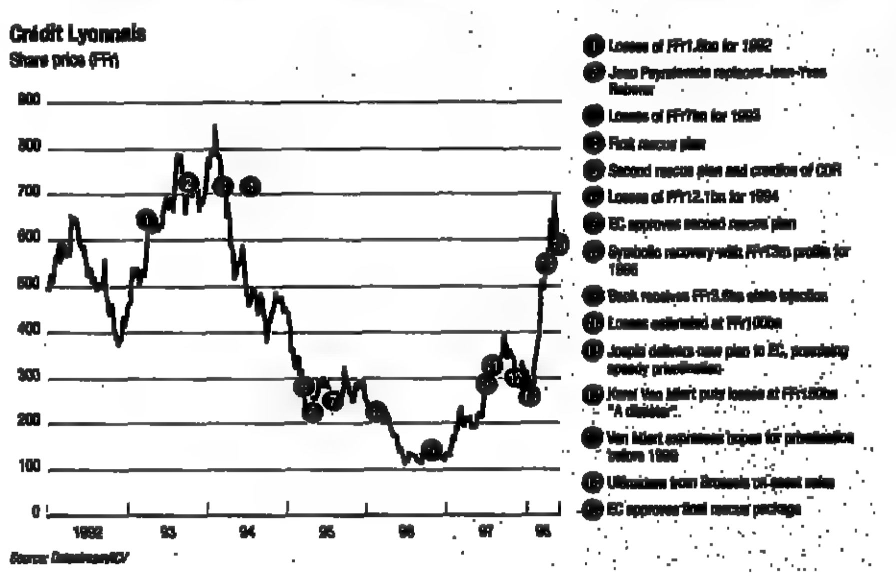
Others have criticised his idea of "banque-industrie", with the bank buying minority stakes in many companies without any management control. There was also his support for the unorthodox methods – including scant documentation on credit risks and minimal use of collateral – of Jean-François Henin, head of Altus Finance, the investment capital arm of the bank.

Mr Haberer argues that he was obeying the orders of the socialist government of the day, as the main shareholder of the bank, which was keen to use it to help finance and support French businesses – especially at a time when its "franc fort" policy imposed painfully high interest rates.

With a change of government in 1993, top management was replaced and a more conservative commercial policy implemented. In 1994, there was an initial rescue plan and recapitalisation. However, the true scale of the bank's losses remained uncertain, triggering a boardroom crisis in late 1994 after the auditors refused to certify the accounts.

Mr Alphandéry co-ordinated a second rescue plan that would remove FFr200bn in gross assets from the balance sheet for sale via a company called Consortium de Réalisation (CDR). The plan would penalise the bank, since it would be required to finance the transfer of these assets with a loan reimbursed at below market interest rates. It would also pay special dividends on future profits to the state.

Leading players: 1988 Jean-Yves Haberer, left, became chairman of an already troubled bank. While his integrity has never been questioned, his management was criticised by a parliamentary inquiry in 1994, a year after economic minister Edmond Alphandéry, centre, replaced him with Jean Peyrelevade



Source: Datastream/ICV

With the election of Alain Juppé's centre-right government in 1995, it fell to Alain Madelin, the new economics minister, to finalise negotiations on the rescue plan. Michel Rouger, former head of the Paris commercial court whom he appointed to head CDR, has been criticised for bowing to political pressure on the sale of some of the most sensitive assets.

But CDR also became a hostage to the ambitious objectives set by Mr Juppé's government: that it should dispose of two-thirds of its assets by the end of 1996 and 80 per cent by 2000. That turned the disposals into a "fire sale", reducing the potential value of the assets.

It also suffered because no comprehensive audit had been undertaken before the assets were transferred. The result was that some of the losses it is now reporting – which it estimates will ultimately run to FFr100bn – are less due to incompetence than lack of knowledge of the true costs of the bank's previous policies.

If CDR was generating higher losses than originally expected, it also became clear during 1996 that other aspects of the rescue plan were proving more costly than anticipated.

As interest rates fell, the bank was squeezed between the high, fixed rates into which it was locked for funding the pre-early-1990s investments and the far lower rates CDR was paying it on these assets it now controlled. The "financing gap" was costing FFr3bn a year.

As discussions on privatisation advanced, it was also clear that two other aspects of the 1995 plan impeded a sale: the loan linking it to CDR, and the "super-dividend" on future profits it was paying to the state. These elements are now being modified in the revised rescue plan endorsed yesterday.

COMPETITION

Van Miert finds firm stand wins flexibility

By Samer Iskandar in Brussels

Karel Van Miert, the European Union competition commissioner, was manifestly relieved yesterday after his colleagues approved a deal he had negotiated with the French government over the rescue of Crédit Lyonnais.

Having obtained significant concessions from the French authorities in exchange for clearing subsidies of more than FFr100bn ($16.7bn) for the troubled bank, Mr Van Miert could easily have claimed victory, but chose not to.

More important than claiming credit for his achievements, the commissioner will want to leverage his success in ongoing and future negotiations.

These will include other rescue packages, such as that of the Italian authorities for Banco di Napoli, as well as competition cases such as airline alliances and joint ventures between media companies.

After all, some analysts believe the Commission was rather lenient with Crédit Lyonnais.

They point out that although the cost of the rescue has roughly trebled since 1995 – or quadrupled if the Commission's highest estimate of FFr190bn is taken into account – the amount of asset sales imposed on the bank has only doubled, from FFr310bn to FFr620bn.

Mr Van Miert has also dropped his insistence that Crédit Lyonnais be auctioned to the highest bidder. Instead, the final agreement only calls for a "transparent and non-discriminatory" privatisation.

This paves the way for one of several solutions favoured by Dominique Strauss-Kahn, France's finance minister, such as a stock market flotation or acquisition by a group of shareholders.

However, Mr Van Miert, always more talkative about the concessions he obtained than those he granted, yesterday insisted the Commission would watch the whole process very carefully.

He brandished the stick of a possible re-opening of the investigation, should he suspect that any of his conditions are not being met.

Mr Van Miert's tough stance and strong words have undoubtedly played a part in obtaining concessions from companies involved in other investigations by the Commission.

More important than claiming credit for his achievements, the commissioner will want to leverage his success in ongoing and future negotiations

Mr Van Miert yesterday said the Banco di Napoli case was nearing a settlement. In a state-backed rescue reminiscent of that of Crédit Lyonnais', Banco di Napoli was returned to health through the creation of a "bad bank" – an ad hoc entity set up to take non-performing assets off the bank's balance sheet.

The Italian government is in the process of merging Banco di Napoli with Banca Nazionale del Lavoro, another state-owned bank. The merged entity will be privatised – a decision which, although not imposed by Brussels as part of the rescue package, is nonetheless bound to please the EU competition authorities.

"The Italian authorities have been very co-operative," Mr Van Miert said. "They have already implemented the agreed conditions."

By standing firm, he was also able to wring concessions out of Bertelsmann, the German media group whose partly-owned Luxembourg subsidiary CLT-Ufa is awaiting the Commission's green light for a proposed digital pay-TV joint venture with Kirch, another German media group.

Mr Van Miert said Bertelsmann had come to him recently with voluntary concessions just hours after it had publicly stated it could make no more sacrifices.

Delicate negotiations still lie ahead, including over the proposed alliance of British Airways and American Airlines.

Mr Van Miert was confident yesterday a deal would be reached in the coming month, and insisted he would not water down his opposition to sales of take-off and landing slots, a condition the airlines are not willing to accept.

The situation is reminiscent of the final stages of the Crédit Lyonnais negotiations, when he persuaded the French authorities he would not hesitate to veto the aid, even at the risk of driving the bank into bankruptcy.

The Crédit Lyonnais experience has taught Mr Van Miert that standing firm could pay off. It remains to be seen how many more times he will get away with it.

BANKING DISMISSAL DELAYS SALE

Oslo postpones DnB offering

By Greg McIvor in Stockholm

Norway's finance ministry has deferred a planned global offering of shares in Den norske Bank, the country's largest commercial lender, in the wake of the dismissal this month of Finn Hvistendahl, chief executive.

The offering, expected to raise up to NKr5bn ($666m), would be the first phase of the government's programme to reduce its stakes in DnB and Christiania, the country's second largest bank, from just above 50 per cent to about 33 per cent.

The sale, for which SBC Warburg was named global co-ordinator in March, had been slated to take place in June, but banking insiders said it had been put on hold following the sudden sacking of Mr Hvistendahl.

Chief executive since 1991, Mr Hvistendahl was abruptly ousted by the DnB board. The bank cited strategic differences between him and the board, hinting it wanted DnB to be more aggressive in the restructuring which has swept Scandinavian financial services in recent years.

Mr Hvistendahl is to leave the company next month and will be replaced by Svein Aaser, deputy chief executive of Amersham Nycomed, the Anglo-Norwegian pharmaceuticals group.

No date has been fixed for Mr Aaser's arrival, however. DnB said yesterday he was due to take over "some time during the autumn".

Jan Giverholt, chief financial officer, will run DnB during the interregnum.

Jan Hopland, managing director of the government's bank investment fund, acknowledged that May and June had been considered as alternatives for the share offering.

No decision had been made on timing, he said, but the government remained determined to reduce its holdings in DnB and Christiania in 1998 or 1999.

Norwegian officials suggested the DnB listing was unlikely to take place until Mr Aaser had formally taken over, at the earliest.

The Oslo government holds a 52 per cent stake in DnB. Were it to reduce this to 33 per cent in one step, it would raise NKr5bn at current prices. It also plans to lower its holding in Christiania, in an offering which could raise up to NKr3.4bn.

The sales have convinced some analysts that Norway's government may be ready to soften its objections to the two banks participating in cross-border restructuring.

KLM moves back into profit with Fl 606m

By Gordon Cramb in Amstelveen

KLM, the Dutch flag carrier, emerged from a Fl 58m ($28.8m) loss in 1996-97 to achieve net profits of Fl 606m in the year to March.

In addition, it reported yesterday a Fl 1.68bn gain on the sale of its 20 per cent stake in Northwest Airlines back to its US partner, as part of a renewed 13-year operating agreement which Leo van Wijk, KLM president, described as "an alliance for life".

As a result, attributable earnings at KLM rose more than nine-fold, from Fl 236m to Fl 2.20bn. Although the bulk of the cash from Northwest came in only this month – and reflected an acceleration of the timetable for unwinding equity links – the Dutch group booked the entire amount to the financial year which had already ended.

It also recorded an after-tax charge of Fl 74m against the US windfall to cover the costs of integrating its sales operations in North America with those of its partner. "This integration is a direct consequence of the agreement to sell the shares and to enhance the joint venture," the group said.

Mr van Wijk described the integration of sales organisations as "clearly a step further than other companies have reached". The next moves were to harmonise cargo operations and information technology. Continental Airlines, the US rival with which Northwest tied up in January, would also need to be drawn into a network including Alitalia, KLM's new European partner.

KLM hopes to integrate its schedules with those of the Italian carrier by November. Meanwhile, it is seeking more links in Asia, where it has loose accords with Malaysia Airlines and Japan Air System. The Dutch group said the economic downturn in that region had only a limited impact, in part because it had already restructured its route network.

Unless Asia-Pacific problems worsened, KLM expected its operating income to improve further from Fl 811m in 1997-98, which compared with Fl 109m the year before.

That increase reflected an 8 per cent rise in traffic and an increase in its passenger and cargo load factor from 76 per cent of capacity to 77.9 per cent.

However, the load factor fell back 1.4 points to 75.5 per cent in the fourth quarter, when the group felt the impact of a decline in Asian demand.

The annual dividend is Fl 3, paid from Fl 8.10 a share in earnings before the special gain.

KLM shares shed 20 cents on the day to Fl 79.70.

Treasury sees privatisations as money in the bank

Poland is set to place more than $1bn of bank equity on the market before next January, writes **Christopher Bobinski**

Alicja Kornasiewicz, Poland's deputy treasury minister, clearly relishes the memory of the recently contested bid for the Polish Development Bank (PBR), as it allowed her to extract maximum profit for the treasury's 29 per cent stake in the bank.

"I enjoy making money for the treasury and ensuring that the banks we are privatising are given the best possible prospects for the future," Ms Kornasiewicz says.

The fun has just started. Over the next 12 months she will place more than $1bn of bank equity on the market, ahead of removal next January of barriers to entry by foreign banks under the country's agreements with the European Union.

The tussle between the Export Development Bank (BRE), in which Commerzbank has a 48 per cent stake, and Sweden's SE-Banken for control of the PBR saw the treasury bid up the price of its stake 27 per cent, with the prize going to the BRE.

"I don't think the bidders were expecting to see the treasury behaving in such a commercial way," she says.

Her enthusiasm will be useful as the calendar of bank sales is crowded. Next month, 15 per cent of Pekao SA bank, which enjoys a 20 per cent market share, comes on to the market in an initial public offering handled by CSFB. This is followed in the third quarter by the sale of a further 35 per cent to a strategic investor.

Ms Kornasiewicz has no preferences as to whether this will be a foreign or a domestic bank. She says, however, that she will not only be looking at the price offered but also at the prospects that the putative investor offers.

"Here there will have to be the promise of major new capital increase and the new owner will have to be in tune with Pekao's strategy of expanding abroad into central and eastern European markets," she says.

Foreign banks that already hold strategic stakes in Polish banks, such as ING Barings in Bank Slaski and Allied Irish Banks in Wielkopolski Bank Kredytowy, will also be assessed on their record in increasing efficiency.

Ms Kornasiewicz has called for bids for 39 per cent of the Krakow-based Bank Przemyslowo Handlowy, a listed commercial bank in which ING Barings holds 12 per cent. Foreign banks, including Deutsche Bank, ABN Amro, GE Capital and ING have expressed interest in the stake, valued at 1.3bn zlotys ($381m).

"Poland is a mature market and we can afford to ask investors for their vision for the bank and their strategy in light of Polish membership of the European Union," she says.

Both BPH, which is concentrated in southern Poland, and Zachodni have access to retail clients, a corporate lending base and their own branch networks.

All this is needed by corporate banks such as BRE and Bank Handlowy, privatised last year, as well as foreign banks such as Deutsche and ABN Amro keen to expand in Poland.

However, Ms Kornasiewicz thinks Bank Handlowy should wait until the state owned PKO BP, Poland's largest savings bank with a nationwide branch network, hits the market next year or after. "I think that they are a perfect fit," she says.

She is convinced the privatisation programme will intensify the consolidation of Poland's banking system, leaving five large banks dominating the scene within three years.

These will include Pekao SA and the BPH with their prospective strategic investors, Bank Handlowy with PKO BP savings bank, and ING's Bank Slaski as well as the Warsaw-based Powszechny Bank Kredytowy, where Creditanstalt of Austria is determined to build on its current 16 per cent holding.

Smaller players such as BRE and the Polish-owned Kredyt Bank and BIG Bank Gdanski will still be in existence, she says.

TELECOMMUNICATIONS CANADIAN DEAL EXPECTED TO SPUR LOCAL COMPETITION

MetroNet buys Rogers' subsidiary

By Edward Alden in Toronto

Canada's local telecommunications market is poised for a flurry of new competition after Calgary-based MetroNet Communications announced yesterday it was buying the telephone subsidiary of the cable group Rogers Communications.

The agreed C$1bn (US$690m) shares and cash purchase will make MetroNet, a start-up company that began offering local service this spring, the first serious competitor to the eight local telephone monopolies of the Stentor alliance.

The Canadian government removed the century-old regulated monopoly on local telephone service last January, opening the Canadian market to the kind of fierce local competition taking place in the US.

The purchase of Rogers Telecom will add 3,100 km of fibre optic cable, five cities and C$350m in plant and equipment to MetroNet's network.

MetroNet said the acquisition would allow it to double its revenue targets over the next decade. The combined company will have sales of just C$70m this year. But the aim is that after a decade sales will have risen to C$2bn and the company will command 15-18 per cent of the business and government market in its targeted areas.

Rogers' shares climbed C$1.55 to C$11.05 in midday trading yesterday, as investors were surprised by the size of the offer for its telecom assets. The cash-strapped company plans to use the cash proceeds to bring its outstanding debt below $C5bn.

Jeremy Burge, an analyst with TD Securities in Toronto, said the sale should help both companies despite the premium paid by MetroNet. Were MetroNet not to buy the assets, it would have to build them, and building them is expensive, he said.

MetroNet stock also shot up, rising C$4.90 to C$40.15 by midday. MetroNet will pay C$600m cash and 12.5m class B non-voting shares for the Rogers assets.

MetroNet hired Craig Young in February as its new president and chief executive officer. Mr Young was president and chief operating officer of Brooks Fiber, which developed a competitive fibre optic network in 44 US cities to compete with the Baby Bells before it was bought out for US$2.9bn by WorldCom last autumn.

Car component makers face consolidation

The Daimler-Chrysler merger could make life harder for suppliers, write **Haig Simonian and Nikki Tait**

Chrysler's merger with Daimler-Benz has prompted plaudits from the components industry. Yet a few leading manufacturers also admit the deal could make life much harder.

"The parts industry should be happy with this merger," says Southwood (Woody) Morcott, chairman of Dana, a leading body parts group which works closely with both companies. "Any time you have a good and healthy customer, that's a good company to do business with."

Suppliers expect the merger to trigger further consolidation, as other car companies try to gain economies of scale and broaden their coverage.

"From an industry perspective, it sets the next stage. We've had supplier consolidation for some time. Now it's going to force the issue to the forefront for carmakers," says Ken Way, chairman of Lear, a leading seating and interiors group.

However, opinion differs on the impact of the merger – and the prospect of others – on the components industry.

Suppliers have been under massive cost pressures for some time as carmakers have slashed purchasing budgets. Much of the improvement in last year's profits at Ford Motor, for example, came through axing spending on parts. With components accounting for up to two-thirds of the cost of a vehicle, even a couple of cents off a part can amount to millions over the life of a model. With Chrysler and Daimler-Benz spending an estimated $60bn on parts, the scope for savings is immense.

The first savings could come by routing existing purchases through fewer suppliers prepared to lower their prices in return for bigger volumes. Later on, new jointly developed vehicles could be designed to share some components, increasing Daimler/Chrysler's leverage.

But exploiting joint buying power will hit suppliers, already smarting from pricing pressures at other carmakers. "We're already being squeezed. There's nothing left. We're already down to bone," says Dick Snell, chairman of Federal-Mogul, a leading engine parts group.

"Regardless of the merger, the pressure will continue. There's a tremendous emphasis on how to reduce costs," says Mr Battenberg.

Harold Kutner, GM's worldwide purchasing supremo, offers little hopes of remission. The world's biggest carmaker has, since 1992, concentrated 27 independent worldwide purchasing units into a central operation to focus its buying power.

Nevertheless, some suppliers see considerable potential from Chrysler/Daimler. "It's going to give everyone a whole different way of looking at their businesses," says Lear's Mr Way.

"Consolidation will allow things to happen. It will remove the traditional resistance to some things, such as further outsourcing," predicts Mr Snell of Federal-Mogul. "I think it's going to let a lot of other activities be separated. I don't feel threatened by that."

Jumping to it: a couple of cents off a part can amount to millions of dollars over the life of a model AP

Dana's Mr Morcott draws comfort from the fact that Chrysler has pioneered "outsourcing". The smallest of the "Big Three" US carmakers traditionally bought more from outside sources than its more vertically-integrated competitors. In recent years, Chrysler has made that a competitive advantage. Dubbing its approach "extended enterprise", the company has turned to suppliers not just because of cheaper prices, but also because of their complementary talents. By devolving development and manufacturing work on to suppliers, Chrysler has shortened its product development times and cut the costs of bringing new vehicles to market.

Its approach, increasingly being copied by competitors, gives Mr Morcott confidence about the merger. "Daimler has virtually admitted it hasn't developed outsourcing as well as Chrysler. That has to be good news for suppliers."

Perhaps in recognition of Chrysler's prowess, responsibility for purchasing in the merged company has gone to Gary Valade, Chrysler's chief financial officer.

Even so, analysts caution that the US company's success in achieving supplier-related cost reductions has been due partly to the efforts of Tom Stallkamp, Chrysler's purchasing chief and subsequently group president.

How much of that success can repeated at Daimler may depend on the German company's commitment and willingness to adapt.

"I don't believe we'll see those types of results until you get those sort of processes and philosophies institutionalised (at Daimler)," says David Andrea, analyst at Detroit-based Roney & Co.

Moreover, while North American suppliers may sense fresh opportunities in Europe, European rivals will be looking at the US. "From the North American perspective, there's been a lot of quick enthusiasm . . . about opening the door into Daimler. But the opposite's also true," says Mr Andrea.

Companies such as Valeo, Siemens Automotive or Robert Bosch – all big Daimler suppliers with sizeable bases in Motown – are expected to "look increasingly to North America to balance out their sales".

What no one disputes is that the merger is likely to accelerate consolidation on the supply side as component companies seek to service carmakers on both sides of the Atlantic.

Inmet to reject takeover offer

By Scott Morrison in Toronto

Inmet, the Canadian mining company that recently sold its stake in the Peruvian Antamina copper-zinc project, said it would reject an unsolicited C$515m (US$355m) takeover offer by Zemex, the diversified producer of industrial minerals and metal powders.

Although Zemex has not yet made a formal offer, it issued a statement indicating it intended to offer C$5 a share for the 96 per cent of Inmet that it did not already own.

Bill James, Inmet chief executive, said C$5 a share would be "way too low".

The offer represented a substantial premium over Inmet's closing share price on Tuesday, but by midday yesterday the company's stock was up 75 cents to C$5.15.

Zemex said it would make its offer once Inmet had completed the sale of its 50 per cent stake in the Antamina project to Teck and Noranda, two Canadian mining groups, for C$70m.

Inmet was forced to sell its Peruvian interest because it was unable to finance its share of development costs for the US$2.2bn project. Antamina is set to become the world's seventh largest copper producer and the third largest zinc mine.

The sale of Antamina raised questions over the future of Inmet, which was left with a number of scattered assets and about C$280m in cash. Mr James said the company would require two to three months to review options and devise a new strategy, for it had previously staked its future on the Antamina project.

Inmet assets include an 18 per cent interest in the OK Tedi copper-gold mine in Papua New Guinea, as well as a 35 per cent share in Germany's Norddeutsche Affinerie copper smelter. Richard Lister, Zemex chief executive, said his company would be likely to rationalise Inmet's assets if his company acquired control.

Zemex is 33 per cent owned by Dundee Bancorp, a Canadian merchant bank.

NEWS DIGEST

RETAILING

Toys R Us slips 25% as inventories are cut

Toys R Us, the world's biggest toy retailer, yesterday revealed a 25 per cent fall in its first-quarter net income from a year ago as it moved to reduce inventories and boost investment. Profits slid to $19.2m, or 7 cents a share, from $29.4m, or 10 cents, in the year-ago period. Sales edged up from $1.9bn to $2bn. Toys R Us said in February it would cut inventories by $500m by 2000 in a bid to lower costs and boost its sluggish earnings.

"At the end of the first quarter, comparable store inventories for our US toy stores have been reduced by over $160m and are currently at levels slightly less than the comparable period of the prior year," said Robert Nakasone, chief executive. "As we continue in this effort to better manage our inventories, the efficiencies of our operations will be enhanced." Toys R Us said comparable sales at its US toy stores – stores open a year ago – increased 2 per cent in the quarter.

The company said its 1998 store expansion plans included about five new stores in the US, 15 to 20 new Babies R Us locations and about 35 new stores, including 15 franchise stores, internationally.

Since the start of its fiscal year, it had repurchased nearly 7m shares for about $188m, Mr Nakasone said.

Reuters, New Jersey

COMPUTERS

Dell beats forecasts

Dell Computer, the US direct computer seller, exceeded analysts' forecasts with a 54 per cent rise in first-quarter net income to $305m, or 44 cents a share, from $198m, or 27 cents, in the same period a year ago. Revenues rose 52 per from $2.59bn to $3.92bn. Analysts had expected earnings per share of 42 cents, according to the First Call research service.

The company said revenue growth was strong across the board, outpacing market growth by between three and six times in every geographical region where it has operations. In the Americas, revenues rose 50 per cent to $2.6bn and consumer sales were exceptionally strong.

In Europe, revenue grew 67 per cent to more than $1bn, and the company claimed it had surpassed Hewlett-Packard to become the third-ranked computer systems company in the region. In the Asia-Pacific region including Japan, revenues increased 35 per cent to $269m while profits expanded. This was in sharp contrast to the overall computer market in the region, which declined 7 per cent, the company said.

AFX News, New York

SOFTWARE

Computer Associates ahead

Computer Associates, the world's third-largest software company, reported a 26 per cent jump in profits for its fourth quarter, excluding a pre-tax charge of $33.8m for its failed attempt to buy Computer Sciences. CA dropped its $9.12bn bid for CSC in March.

CA said its performance reflected strong worldwide demand for its products and its business fundamentals remained solid. Profit for the quarter ended March 31 rose to $422.8m, or 75 cents a diluted share, excluding the charge, on a 22 per cent increase in revenue to $1.47bn. With the charge, net income was $401.66m, or 71 cents. In the year-ago period, CA earned $336m, or 60 cents, on a pro forma basis.

For the full year, revenue rose 17 per cent to $4.72bn from $4.04bn. Net income and earnings per share, excluding the charge, rose to $1.19bn and $2.10 a diluted share, respectively. A year ago, the company earned $963.94m, or $1.69, excluding a charge for buying Cheyenne Software.

Reuters, New York

CARMAKERS JAPANESE MANUFACTURERS SHRUG OFF DOWNTURN IN DOMESTIC MARKET

US sales help Toyota, Honda to record

By Michiyo Nakamoto in Tokyo

Toyota and Honda, two of Japan's leading carmakers, reported record profits as robust US sales more than offset the sharp downturn in the domestic market.

Toyota suffered a 13.9 per cent fall in domestic vehicle sales to 1.9m units as the depressed economy and a rise in consumption tax damped demand for big-ticket items such as cars.

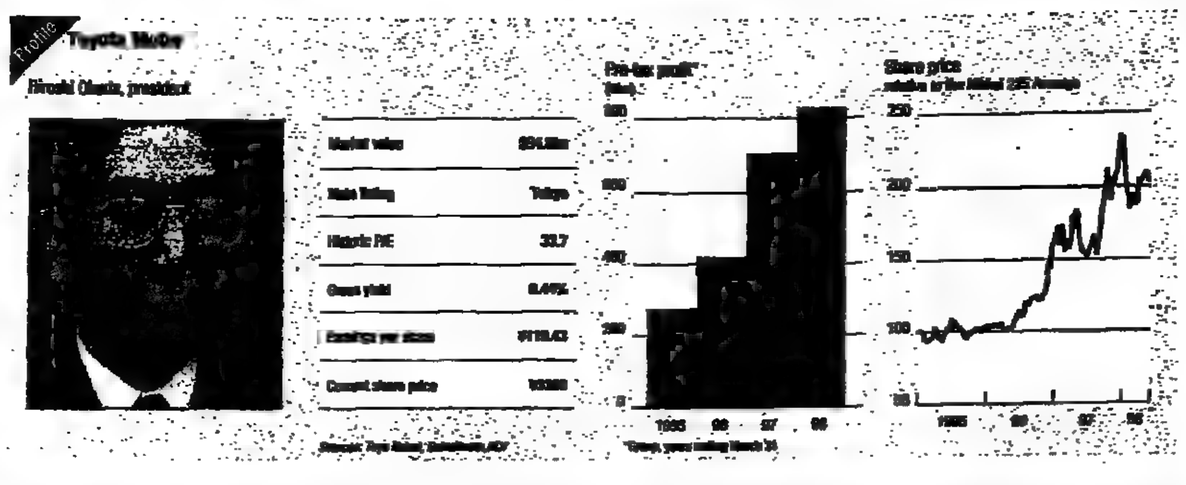
However, a 17 per cent rise in exports helped Toyota lift group net profits 18 per cent to a record Y454.35bn ($3.3bn) on sales down 5 per cent to Y11,678.4bn. Pre-tax profits increased 17 per cent to Y828.8bn.

Honda also saw domestic sales fall, to 757,000 units in Japan last year against 779,000 the year before. However, group sales rose 13 per cent to Y5,999.7bn, lifting pre-tax profits 14 per cent to Y443.4bn. Net profits climbed 18 per cent to Y260.6bn.

Firm demand in the US and Europe helped support the improvements at the two companies. "Our US companies have done very well. They have become much more profitable," said Iwao Okijima, Toyota executive vice-president.

In contrast, Toyota's UK sales suffered from a change in car models, which required retooling its factory. However, sales in Europe are on track to meet a target of 600,000 in fiscal 1999, Toyota said.

Honda enjoyed firm demand in the US for its CR-V sports utility vehicle and its new Civic saloon.



The company's vehicle sales in North America surged 14 per cent in unit terms to 1.09m, while the value of sales in the region increased 51 per cent, from Y1,950bn to Y2,433.5bn. In Europe, Honda saw vehicle sales grew 24 per cent to 261,000 units, while in value terms sales rose 11 per cent to Y517.3bn.

Honda is more optimistic about the current year than Toyota, expecting firm demand in the US for its Accord saloon to support a 3.6 per cent increase in group net profits to Y270bn on higher sales of Y6,200bn.

Toyota forecasts a decline in parent sales to Y7,700bn, with net profits falling to Y300bn.

Nissan's promises fail to dispel doubts

Proposed remedies to cut debt mountain may be too late, writes **Paul Abrahams**

Japan's second biggest automotive group yesterday acknowledged it was in deep trouble. In his company's Tokyo headquarters, Yoshikazu Hanawa, president of Nissan, was obliged to announce his second profits warning in six weeks.

He drew a gloomy picture of the crisis. The domestic automotive market has collapsed, down 19 per cent in the first four months this year. Overseas, Nissan has fared little better. Although the European business made a profit for the first time last year, the US operations have been disastrous.

The remedies proposed by Mr Hanawa appear radical – at least for a Japanese company. Nissan will shift from the traditional Japanese goals of sales growth and market share and concentrate instead on profitability.

It has abandoned its target of 25 per cent of domestic market share. Operating margins will be doubled from 3 per cent last year to 6 per cent in the year ending March 2003. Costs will be cut by Y400bn ($3bn) by the end of the 2001. Inventories will be slashed by Y250bn by 2000. In the search for greater profitability, Nissan will even "explore co-operative business relations with other companies on a global level".

Despite the rhetoric, doubts remain. It is far from clear that Mr Hanawa can deliver on his promises, and even if he can, it may be too little too late.

Nissan's problems are not new. Next Wednesday the company will announce net losses for the fifth time in six years. Since 1992 the company has posted aggregate losses of Y333bn.

The main problem is debt. Mr Hanawa said yesterday that the group's net liabilities – built up during an international investment spree in the early 1990s – were Y2,500bn. However, analysts believe that when finance subsidiary debts are included, the true figure is Y3,500bn.

> **When asked about problems in the US, Mr Hanawa said he did not feel on top of the situation there.**

Even this may under-represent the problem, given the poor disclosure of many Japanese companies' subsidiaries. Changes in regulations could soon force Nissan to consolidate the debts of such affiliates.

Nissan's high debts – its acknowledged net debt-to-equity ratio is about 250 per cent – have held back investment in new products. This has resulted in a lacklustre product line-up that has hit sales and profitability. Nissan remains highly dependent on saloon cars, at a time when the domestic and American markets for such products are sluggish. Even Nissan's occasional successes are not without problems: its Cube vehicle is priced so competitively in Japan that margins are thin.

The consequences in the US, in particular, have been catastrophic. Sales in April were down 24 per cent year-on-year.

This collapse comes despite a $200m "Enjoy The Ride" advertising campaign. The company has had to resort to heavy discounting to shift stock. Weak marketing means it also leases out a substantial proportion of its vehicles – about 40 per cent against an industry average of 25 per cent. A collapse in second-hand prices has forced Nissan to make heavy provisions to cover lower-than-expected residual values – the main reason for yesterday's profits warning.

Nissan's ability to sort out the mess is in doubt. Managers remained vague yesterday about solutions. When asked about problems in the US, Mr Hanawa said he did not feel on top of the situation there.

He was similarly vague about how he would achieve his target of cutting debt by Y1,000bn. There was talk of improved cash flow, the disposal of cross-shareholdings in other companies, and the possible sale of the group's headquarters, but few details.

Mr Hanawa must now deliver on aggressive cost-cutting. There is plenty of fat in the organisation. Gross margins are just 25 per cent compared with Honda's 30.6 per cent, according to Morgan Stanley. He must also rid the group of loss-making operations such as Nissan Diesel, its truck business.

There appear to be opposition forces within the company itself. Details of the possible sale of Nissan's stake in Nissan Diesel to Daimler-Benz of Germany were leaked last week, driving up the quoted subsidiary's share price and almost derailing the deal. News of the sale of the prestigious Ginza headquarters was also leaked to the press.

The road is likely to be bumpy for the world's sixth largest automotive group, and Mr Hanawa has much to prove if he is to maintain the company's long-term independence.

Tricky leasing sums make for US nightmare

By Haig Simonian, Motor Industry Correspondent

Leasing cars in serious numbers has always been a tricky business, and Nissan's misadventures in the US are another example of what happens when companies get their sums wrong.

The group's problem arises from over-optimistic assumptions about the residual values of cars sold on what the company itself describes as "very competitive" leases. When the cars came back, their used value to the trade was lower than Nissan's original assumption, leading to some "very significant" provisions, reflected in its latest figures.

The need for such attractive lease deals, along with a sackful of other incentives, stemmed from slack demand for many US-built Nissan models.

Although based in California, the company makes cars and pick-ups in Smyrna, Tennessee. The factory is designed to build 450,000 vehicles a year – and achieved a record 466,000 in 1995 – but output last year was just 398,300.

The drop reflected crumbling US demand for traditional passenger cars, which comprise the bulk of Nissan's US output.

Smyrna makes the Altima and Sentra, two mid-sized saloons, the Frontier pick-up and a coupe version of the Sentra called the 200SX.

None of those vehicles forms part of the biggest and most profitable segments of the US market – large sports utilities and beefy pick-up trucks. Nor does Nissan have a lightweight sports utility vehicle.

The company is not entirely absent from expanding segments, such as minivans, which have captured sales at the expense of conventional saloons. But it has been further hit by the fact that even its conventional US-built models have suffered declining fortunes.

The Sentra, its highest-volume model, which will be built exclusively in Mexico from next year, is ageing, while the newer Altima has not enjoyed the same popularity.

Only next year, with the transfer of Sentra production, will the Smyrna plant gain a new lightweight sports utility vehicle.

HK downturn leads developers to fight dirty

By Louise Lucas in Hong Kong

Hong Kong property developers have sparked a price war and resorted to aggressive poaching to win over the dwindling band of buyers in the territory.

The battleground is Tsing Yi island, a former graveyard now blanketed with housing estates. Cheung Kong, controlled by the tycoon Li Ka-shing, threw down the gauntlet on Monday when it launched its Tierra Verde flats at about HK$4,150 (US$535) a sq ft. The price was about 10 per cent below market expectations, reflecting the moribund state of the sector.

High-rise battle: residential prices have tumbled as slowdown bites

Cheung Kong's move prompted 12 per cent price cuts from Sun Hung Kai Properties to HK$3,750 a sq ft, while Henderson Land cut the price of flats in two of its developments by 7 per cent.

Last night Wheelock joined in, cutting the price of flats in its Galaxia development on the Kowloon peninsula.

Residential prices are already 35 per cent off their peak last July, and as the economic slowdown engulfs Hong Kong, few analysts see an upturn in the next 12 months.

Developers are also resorting to more devious methods. Agents are stationed outside rivals' developments to lure potential buyers to their employers' properties. Cheung Kong even lays on coaches, according to one agent.

"This price war is very intensive. When the market was bad in the early 1980s, developers would not do such things," says Shih Wing-ching, managing director of Centaline Properties, Hong Kong's biggest domestic agency.

The difference is attributable in part to the protracted economic slowdown – economists expect growth of about just 1 per cent or 2 per cent this year, and unemployment is at a 14-year high – and high interest rates.

Hong Kong also has a buoyant supply of property and a government housing policy which, the developers say, fails to take into account weakening demand.

Tung Chee-hwa, Hong Kong's chief executive, made affordable housing one of his first promises on assuming office in July last year and has shown little inclination to renege on plans to build 85,000 flats a year, of which 50,000 will be public.

Yesterday Mr Tung said that the government was "extremely concerned about any rapid fall in the property market, because the stability of the property sector is very important to Hong Kong's overall stability".

Matsushita hit by tax changes

By Alexandra Harney in Tokyo

Matsushita, the Japanese electronics giant, blamed sharply lower full-year earnings on tax changes and weak demand, but predicted a recovery next year.

Consolidated net profits slid 32 per cent to Y93.6bn ($686m) for the year to March 31. The tax charge rose from Y155bn to Y234bn. Excluding the change in the tax rate, earnings would have fallen 8 per cent, said the company. Turnover rose 3 per cent from Y7,675bn to Y7,890bn.

In the current year, the company, which markets its products under the Panasonic, Technics and Quasar brand names, said it would focus on information technology products – especially optical discs and mobile phones.

It said consolidated net earnings should rebound 37 per cent to Y128bn, on sales up 1 per cent at Y8,000bn. The company, which said it would pay a Y12.5 dividend this year, also announced an additional dividend to commemorate its 80th anniversary but did not specify its timing or value.

However, analysts cautioned Matsushita's prospects might be worse than expected, because of low demand for home electronics and a fall in mobile phone prices. Andrew Haskins, analyst at HSBC Securities Japan, said: "We think the company's forecasts may be a bit optimistic."

Domestic sales slipped 4 per cent to Y4,054bn as falling demand for home appliances hit profits across Japan's consumer electronics sector. Home appliances account for nearly one-third of Matsushita's domestic sales.

However, brisk sales of information technology and video equipment, supported by a weak yen, led to a 10 per cent rise in overseas sales to Y3,997bn. Overseas sales, at 51 per cent of turnover, surpassed domestic sales for the first time.

NEWS DIGEST

HONG KONG PROPERTY

Mingley to take control of Sing Tao Holdings

Mingley Corporation, a Hong Kong property group which developed Discovery Bay, is to take control of Sing Tao Holdings, the investment and publishing group, from Sally Aw, the chairman who inherited the business from her father. The deal, announced yesterday, is likely to lead to a general offer, which under Hong Kong rules is triggered once the 35 per cent holding is reached. A general offer would be made at the same price as that paid for Ms Aw's shares.

Mingley is to set up a new company in which Ms Aw will have a 49 per cent stake. This vehicle will buy Ms Aw's shares in Sing Tao for HK$369.58m (US$47.7m), or HK$1.76 a share, a premium of about 23 per cent to the closing price of HK$1.43 on Friday, when trading in the shares was suspended.

The new company is to be financed by a loan from Mingley, said to be advanced on commercial terms, but bearing an interest rate of 2 per cent below the prime rate. The deal ends months of speculation. Ms Aw is understood to have been negotiating a sale of her interests since last year, but was frustrated by the impact of the Asian financial crisis.

The sale comes as executives of the company are facing fraud charges over inflating circulation figures of the English language Standard newspaper. Ms Aw herself was named in the allegations brought by the anti-corruption body, but was not prosecuted.

Sing Tao is one of the few foreign publishers to have been granted access to China: the Chinese language Sing Tao was one of the earliest overseas newspapers circulated across the border. **Louise Lucas, Hong Kong**

MOBILE TELEPHONES

AT&T sells SmarTone stake

Shares in SmarTone, the Hong Kong mobile phone operator, fell more than 4 per cent yesterday after AT&T sold its entire 16.5 per cent stake in the company. The shares were placed to institutional investors at HK$18.30 a share, a discount of 5.7 per cent against Tuesday's close of HK$19.40.

Dan Somers, AT&T chief financial officer, said the sale was part of the group's strategy to focus its portfolio of investments. Since the beginning of last year, it has generated some US$12bn in cash from disposal of businesses.

The sale comes just two months after ABC Communications (Holdings), a Hong Kong paging and internet company, sold down its 12 per cent stake in SmarTone. Shortly after ABC's withdrawal, Town Kahn, an arm of China's former Ministry of Posts and Telecommunications – which has since been merged with other information ministries – trimmed its holding by about 2 per cent to 10.4 per cent. Yesterday SmarTone's share price closed down 85 cents at HK$18.55.

Merrill Lynch arranged the share placement. **Louise Lucas**

OFFICE EQUIPMENT

Overseas sales buoy Ricoh

Ricoh, the Japanese photocopier and office equipment maker, reported record profits last year from buoyant overseas markets, despite slipping sales in Japan. The company also forecast higher sales and profits for the current year, although it said the domestic economic outlook was unclear, and conditions in Asia would stay adverse. Non-consolidated sales should grow 2.3 per cent to Y770bn ($5.66bn), and net profits 4.2 per cent to Y23.5bn. Consolidated sales are expected to rise 3.2 per cent to Y1,450bn, and net profits 5.8 per cent to Y32.5bn.

Consolidated results, which include contributions from subsidiaries such as Gestetner in the UK, last year benefited from a 19 per cent increase in photocopier sales outside Japan. Consolidated net sales were up 6.6 per cent, to Y1,403bn, giving pre-tax profits of Y68.4bn, up 2.3 per cent, and net profits of Y30.1bn, up 4.2 per cent.

Despite difficult conditions in the main market of Japan, where photocopier sales slipped 0.7 per cent and photographic equipment 21.3 per cent, overall non-consolidated sales rose 7.7 per cent to Y752.6bn, and net profits jumped 13.6 per cent to Y22.5bn, largely from rising exports. The dividend was cut Y1 to Y11. **Bethan Hutton, Tokyo**

WATCH MAKING

Citizen advances 40%

Citizen, Japan's largest watch manufacturer, achieved a 40 per cent increase in net earnings, up from Y9.76bn to Y13.7bn, in the year ending in March, because of strong exports. Watch sales, bolstered by high-margin timepieces such as the solar-powered Eco-Drive, rose 4 per cent to Y184.4bn, while sales of notebook computers and other information technology products fell slightly, from Y154.9bn to Y147.9bn.

Economic stagnation held down domestic sales, the company said. "The Japanese economy was in great difficulty as consumer spending sunk under such developments as a rise in consumption tax and confusion in the nation's financial system," it said. However, because the domestic market only represented a third of sales, the company was able to compensate with exports.

Pre-tax profits excluding exceptionals rose 25 per cent to Y31.9bn, while net sales slid 1.7 per cent to Y386.4bn. The results were strengthened by export sales, coupled with the effect of the weak yen, the company said. In the current year consolidated net income was expected to rise modestly to Y14bn, on sales up 9 per cent at Y390bn. The company said it planned to cut costs by restructuring management and production and to expand marketing activities. The dividend was maintained at Y9 per share. **Alexandra Harney, Tokyo**

SEMICONDUCTORS

Kyocera profits tumble 32%

Difficult world markets for semiconductors and telecommunications equipment depressed sales and profits at Kyocera, the Japanese manufacturer of semiconductor products. Parent company sales fell 6.2 per cent to Y491.7bn ($3.61bn), leading to a 32.2 per cent fall in pre-tax profits to Y65.7bn, while net profits were 28.3 per cent lower at Y36.6bn. Kyocera expects parent-company sales to jump 7.8 per cent to Y530bn, and net profits to recover to Y42bn, on the basis of new product launches in the second half.

Kyocera has been suffering from a move away from ceramic packaging for microprocessor units to lighter, cheaper plastics, particularly by its key customer, Intel. This led to a 14.4 per cent drop in semiconductor part sales, the company's core business. However, in the second half of the current year Kyocera will put into full production its newly developed plastic MPU packages.

Telecommunications equipment sales fell 20 per cent, mainly because of price erosion in the Japanese mobile phone market, but Kyocera is planning to remedy this with the launch of new telecommunications equipment in the home and overseas markets.

Kyocera also blamed last year's steep profit falls on heavy investment, particularly in development of telecommunications products.

Better performance overseas meant that consolidated sales rose slightly, up 1.5 per cent to Y725.3bn, and net profits rose 3.1 per cent to Y47bn, but pre-tax profits dropped 9.5 per cent to Y105.4bn. Kyocera said the sales increase was helped by the strong performance of AVX, a capacitor-making subsidiary in the US. **Bethan Hutton, Tokyo**

COMPANIES & FINANCE: UK

Coca-Cola Beverages will look east

By John Willman

Plans for the London flotation of a new company to bottle and distribute Coca-Cola in eastern and central Europe are due to be announced today, barring last-minute delays in the Australian courts.

Coca-Cola Beverages will operate in 10 countries of the former communist bloc. The July flotation is likely to value the company at about £1.5bn ($2.5bn), making it a constituent of the FTSE 250 index and a must-buy for index-tracking funds.

The formation of the company, announced in February, offers investors a chance to invest in a consumer goods company operating in eastern Europe. Its territory will include Poland, Belarus, Ukraine and Romania. It will also operate in Austria, Switzerland and northern Italy.

Most of the company is the European operation of Coca-Cola Amatil, the Australian bottler that distributes Coca-Cola in the Asia-Pacific region. Court approval is necessary for the demerger of Amatil, which will give shareholders shares in Coca-Cola Beverages.

Many existing shareholders – including San Miguel, the Philippine company which owns 25 per cent of Amatil – are unlikely to want to hold shares in a European bottler. The flotation will allow them to sell their new shares in the market through a bookbuilding exercise managed by SBC Warburg Dillon Read.

Coca-Cola Beverages will also acquire the franchise for northern and central Italy, and including Rome, from the Coca-Cola parent company. The price has not yet been disclosed, but is likely to include some shares which – added to its 33 per cent stake through Amatil – will give Coca-Cola more than half the new shares.

In time it is likely to reduce this stake, in line with its approach in the other anchor bottlers such as Amatil. The Atlanta-based group has been consolidating operations worldwide, and with Coca-Cola Beverages will have four anchor bottlers in Europe. The other three are:

- Coca-Cola Enterprises, which covers France, the UK and the Benelux countries
- Coca-Cola Nordic Beverages in Scandinavia, and
- Coca-Cola Erfrischungsgetränke in Germany.

ADVERTISING MARKET EXPECTS CLEAR CHANNEL TO RAISE OFFER IF MMC IS CALLED IN

Bet on US comeback for More

By Andrew Edgecliffe-Johnson

Clear Channel Communications of the US is expected to raise its £446m ($745m) offer for More Group if the UK outdoor advertising group's rival suitor, Decaux, is referred to the Monopolies and Mergers Commission today.

Margaret Beckett, the trade and industry secretary, is expected to rule whether the French group's £475m bid should be cleared, or investigated by the MMC. Most analysts expect a reference, although Decaux has insisted that its bid raises no competition concerns.

Analysts and investors said yesterday that Clear Channel would have to raise its terms from £10.30 a share to at least the £11.10 level offered by Decaux to win a recommendation from the More Group board.

"The market is betting that the Americans will come back with more," said Lorna Tilbian, media analyst with Panmure Gordon. More's shares were unchanged yesterday at £11.16½ – slightly above the level of the Decaux offer.

Other analysts added that, should Decaux be faced with an MMC investigation which could last for six months, it would pobably tell shareholders that, were it to be cleared, it would return with a higher offer.

Such a renewed bid would have to be above £12, analysts said, given the delay and risk investors would face if they chose to wait for Decaux to return.

Should Mrs Beckett clear the Decaux bid, which would give it control of nearly 90 per cent of local authority bus shelter contracts in the UK but just a quarter of the broader outdoor advertising market, analysts said Clear Channel may yet return with a higher offer.

Such a move could spark off a second round of a bidding battle which has to date been notable for namecalling and a considerable amount of lobbying.

It would also attract closer attention to the finances of Decaux, and its ability to take on debt to finance a higher bid. Jean-Francois Decaux, the group's chairman, said last week that the private company has about £200m of cash.

Decaux has consistently said it would be able to pay more than any other group, because it is not answerable to outsideshareholders. The group is 100 per cent owned by the family of Jean-Claude Decaux, who invented bus shelter advertising and the automatic public convenience.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Baggeridge Brick	6 mths to Mar 31	17.9	(15.9)	1.76	(0.868)	2.06	(1.09)	0.65	Aug 5	0.75	-	3.5
Barlo ♣	Yr to Mar 31	138.4	(112.4)	8.49	(8.86)	4.77	(3.77)	0.8	Aug 14	0.73	1.26	1.15
Belgo	Yr to Mar 31	2.16	(1.86)	0.157♠	(0.63L♠)	0.005L	(0.81L)	-	-	-	-	-
Blacks Leisure	Yr to Feb 28	115.3	(90.8)	13.6	(10.2♠)	28.16	(22.57)	3.75	Oct 2	2.75	5.5	4
BT	Yr to Mar 31	15,640	(14,935)	3,219♥	(3,203♠)	26.7	(32.8)	11.45	Sept 21	11.95	19	19.85#
Cantab Pharms	3 mths to Mar 31	1.09	(5.38)	1.22L	(3.38)	7Lt	(21)	-	-	-	-	-
Capital	Yr to Mar 31	32.6	(23.2)	2.69	(1.71)	16.64†	(12.28)	nil	-	3.25	1.8	4.75
Carlton Comms	6 mths to Mar 31	920.6	(886)	165.7♥	(158.6♠)	17.6†	(16.6)	2.4	Aug 21	4.9	-	12.4
Courtaulds	Yr to Mar 31	1,957	(2,100)	105.2♠	(133.6)	19.4	(20.7)	nil	-	11.95✠	4.8✠	16.4✠✠
Countryside Props	6 mths to Mar 31	94.5	(95.3)	6.31	(3.68)	6.3	(4.1)	1.25	Sept 2	1	-	3
Cranswick	Yr to Mar 31	148.2	(157.8)	5.04	(4.04)	24.7	(19.5)	8.25	Sept 25	7.2	11.5	10.2
Digital AnimationΦ	Yr to Mar 31 ✱	0.619	(0.03)	0.585L	(0.654L)	4.05L	(5.02L)	-	-	-	-	-
Dixon Motors	Yr to Dec 31	413.6	(282.6)	8.86	(6.5)	26.3†	(19.9)	5	Apr 30	4	7.5	6
Glenmorangie	Yr to Mar 31	48.5	(46.1)	8.41♠	(7.8♠)	44.01*	(41.26)	10.95	July 28	10.175	14.2	13.2
Hambro Insurance	Yr to Mar 31	88.3	(111.1)	15.1♥	(10.9♥)	17.66	(9.44)	nil	-	3.7	2	5.65
Land Securities	Yr to Mar 31	414.1□	(405.1□)	266	(243.8♥)	36.84†	(34.85)	20.4	July 13	19.65	28	27
[redacted] ♣	Yr to Feb 28	8.04□	(4.64□)	3.07♥	(0.647)	8.77	(2.1)	-	-	-	-	-
National Power	Yr to Mar 31	3,354	(3,535)	731♥	(718♠)	28.9†	(48.9)	18	Aug 18	19	27	25#
Orbis	Yr to Mar 31 ★	48.4	(28.9)	3.53	(2.44)	2.44	(1.91)	1.25	Oct 30	0.97	1.6	1.27
[redacted]	Yr to Mar 31	41.2	(23.4)	7.5	(4.11)	9.16†	(5.24)	§	-	0.84‡	0.6‡	1.4‡
South Beach CaféΦ	Yr to Dec 31 ✩	0.654	(0.229)	1.23L	(0.367L)	0.97L†	(0.71L)	-	-	-	-	-
Sutcliffe Speakman	Yr to Mar 31	69.8	(71.7)	5.31	(4.57♠)	2.6	(2.26)	0.7	July 30	0.67	1.2	1.1
Versailles	Yr to Feb 28	155.6	(103.7)	7.7	(6.12)	2.05	(1.37)	0.235	July 10	0.215	0.45	0.41
Widney	27 wks to Apr 4	19.2	(18.9)	0.619L♠	(0.167L)	8.52L	(2.04L)	1	Oct 5	1	-	3.5

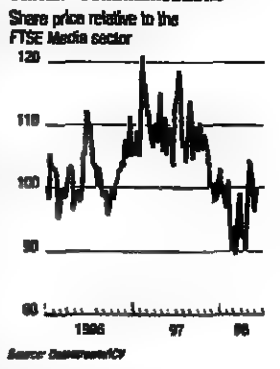
Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberdeen European	Yr to Feb 28	139.05	(124.14)	0.063	(0.393)	0.18	(1.15)	0.5	July 16	1.1	0.5	1.1
Edinburgh	Yr to Mar 31	559.92	(420.07)	42.5	(36.9)	14.48	(12.56)	7.75	July 3	7.3	11.4	10.75
Mejadie	6 mths to Mar 31	381	(298)	1.53	(1.17)	2.91	(2.22)	3.1	July 3	3	-	6.9

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♣Irish currency. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. #Excludes special. ✠Foreign income dividend. ✠✠Includes FID element. ΦAim stock. ✱Comparatives for nine months. *Earnings and dividend figures refer to A shares. □Net income. ★Comparatives restated. ‡Adjusted for scrip issue. §Final will be declared for 15 month period to June 30. ✩Comparatives for 10 months.

COMMENT

Green fingers

Carlton Communications
Share price relative to the FTSE Media sector



Will Michael Green be as good at building businesses as he is at milking Carlton Communications' existing ones? ITV, video duplication and the like are good cash cows: the group generated over £100m during the six months to end-March and is sitting on net cash of nearly £200m. But these businesses have few growth prospects. Hence, the challenge is to find new avenues for growth. The main initiative – digital terrestrial television – is fairly promising. British Digital Broadcasting, in which Carlton has a 50 per cent stake, is well-positioned to provide a cheap and cheerful service that will expand the market beyond the confines so far exploited by British Sky Broadcasting.

There are, of course, risks. BSkyB may not be happy with a high-margin, lowish-volume niche. If it counter-attacked aggressively on price and marketing, BDB could soon be shredding its business plans.

Nevertheless, this is just the sort of risk Carlton ought to be running.

The group is coy about what other initiatives it has in mind. It might conceivably apply for one of the next generation of mobile telecoms licences. A bigger push into TV programming might also be logical, though recent allegations that one of its documentaries was a fake may have dented its confidence. At any rate, share buy-backs are rightly on the back burner.

BT

It is glasnost, BT-style. The veil is slowly lifting on its European investment programme. And Cellnet, BT's sluggish mobile subsidiary, is at last acknowledged as lacking competitive edge. Both are signs of the beneficial effect on BT's style of the shock of losing MCI to WorldCom.

BT's promise of greater openness is a sensible, if belated, response to scepticism about its international expansion plans. While details will only be released next month, BT's bullishness on its continental investments is encouraging. Start-up losses, running at some £300m, will peak this year and most ventures will break even within 3 to 5 years.

Sustaining such losses hardly puts pressure on BT's balance sheet and should put the company in a strong position to get in on the ground floor of the liberalised European market. The contrast with the US – where the price of entry is prohibitive – is stark.

Brit Biotech report findings

By Jonathan Guthrie

A confidential report commissioned by British Biotech, the former flagship of the UK biotechnology sector, suggests that directors dealt in its shares despite strong doubts on the progress of critical drug trials, which were not shared with investors.

The report, written by the law firm Cameron McKenna last month, clears the directors of breaching stock exchange rules. These require directors to cease dealing in shares when an official announcement of price sensitive information is likely.

However, the lawyers' report says that "in hindsight, it may be argued" that in January 1995 when a number of directors sold shares "there existed a matter which constituted unpublished price sensitive information". A slew of worrying side effects had emerged in drug trials that were abandoned shortly afterwards.

According to the report, the trials were already "delicately poised" by January 10, when an independent group of doctors running the trials met to discuss progress. Three directors of the company made big share disposals on January 17 1995, all at £5.25 a share, through Dresdner Kleinwort Benson, the company broker.

The deals are being scrutinised by the stock exchange. Just seven days later the company suspended recruitment of patients to phase III pivotal trials of the anti-cancer drug batimastat because of worrying side effects. On February 17 the company announced it was suspending the trials, triggering a fall in the shares.

However, Mr McCullagh told the FT yesterday: "There was no expectation on behalf of the directors or the managers in the company that these trials would be suspended."

National Power invests in China

By Andrew Taylor

National Power, the UK generator, is investing $250m in two new Chinese power stations. The move comes against a background of falling UK profits and market share.

The two projects will take National Power's overseas spending to £1.3bn in five years. The company has grown from a totally UK business into one of the three largest international electricity generators with Endesa of Spain and AES of the US.

National Power will invest $180m in a $700m project to build a 700MW coal fired station at Changsha in Hunan province, which it will develop and operate. It will also spend $66m on a 49 per cent stake in a 250MW plant under construction at Shaowu in Fujian province.

National Power yesterday blamed the mild winter and increased competition in UK electricity markets for a dip in pre-tax profits to £720m (£740m), excluding an exceptional windfall tax payment of £266m, for the year to March 31. Overseas profits rose to £130m (£74m).

Keith Henry, chief executive, warned that group pre-tax profits in the current year would be at least £130m lower because of the ending of beneficial UK coal-fired electricity contracts.

The group has a capacity of about 16,000MW in the UK and 10,000MW overseas, which is expected to grow to about half of group capacity by 2003. It has already spent $70m on four Chinese co-generation plants and has investments in Australia, Pakistan, Spain, Turkey, the Czech Republic and the US.

BT held back by price fall

By Alan Cane

Intensifying competition, falling prices and investments overseas kept the lid on growth at British Telecommunications last year.

Although sales edged ahead 4.7 per cent to £15.5bn ($25.7bn) pre-tax profits were flat at £3.22bn (£3.2bn).

The results for the year to March 31 were affected by two exceptional items.

BT received a fee of £238m from US telecoms group MCI after the collapse of merger negotiations, but was obliged by the UK government to pay a windfall tax charge of £510m. As a result, after-tax profits fell 17.6 per cent to £1.73bn.

The results were broadly in line with market expectations, and the shares closed only slightly down, falling 2½p at 638p.

Carlton beats City forecasts

By Cathy Newman

Carlton Communications, owner of three ITV franchises, defended the performance of its terrestrial television interests as it turned in interim results above City expectations. "People are underestimating the strength and resilience of ITV," it said.

The comments came as Carlton unveiled pre-tax profits for the six months to March 31 up 4 per cent at £165.7m ($277m). That included £6.9m digital television costs. The figures also included a £9.6m profit on the sale of the company's interest in Getty Images.

Carlton's products businesses suffered from the strong pound and the turmoil in Asia.

The shares rose 23p to 517p.

INTERVIEW JOHN PEPPER, PROCTER & GAMBLE CHAIRMAN AND CHIEF EXECUTIVE

Proctoids' new, improved future

Polishing the image of the household products group is one thing; the real battle is for innovation and growth, writes **Richard Tomkins**

"Oh, you'll like John Pepper," says a Procter & Gamble staffer at the company's headquarters in Cincinnati, Ohio. "He's a real down-to-earth, friendly kinda guy." Or as another employee puts it: "You'll like John. He's a real friendly guy – real down-to-earth."

Friendly? Down-to-earth? The chairman and chief executive of Procter & Gamble? Five years ago, a business book about the company portrayed it as a sinister, paranoid institution obsessed by secrecy and control. Employees were described as blue-suited "Proctoids" whose lives, appearance and behaviour were policed by company bullies and spies. The then chairman and chief executive, Ed Artzt, was nicknamed the Prince of Darkness.

In keeping with this image, the company's headquarters building is a grim, brooding monolith looming over downtown Cincinnati. But there are some mild surprises inside.

For a start, many employees appear to be happy. In at least two departments, birthdays are being celebrated. In a meeting room called the Idea Factory, people are encouraged to wear silly hats and play with wacky toys. Most disconcerting of all, everyone is wearing casual clothes.

The disappointments extend to the 11th floor executive offices, where Mr Pepper, 59, cuts an unlikely figure as a commissar. A gentlemanly consensus-builder, he talks a lot about people, respect and doing the right thing. And yes, he comes across as a friendly, down-to-earth kinda guy – *but one with ambitious goals* for extending P&G's products still further into the nooks and recesses of people's lives.

Describing the book about P&G as "a bunch of garbage", Mr Pepper laughs off its portrayal of his predecessor as demonic. When Mr Pepper joined the company in 1963, he says, Mr Artzt, far senior to him, spent hours teaching him about the business. "I had some of the most cockamamy proposals I wanted to do. I had some really crazy ideas, and he let me do them.

"So he was a teacher. And yes, his style was different than mine. I don't think there have been any CEOs in this company whose styles have been exactly the same. That's probably good, if you believe in diversity – and I happen to, as long as the basic values are right."

Mr Pepper is bashful when it comes to discussing the changes he has made since succeeding Mr Artzt three years ago. "I find it hard to comment on, in a way. It sounds so individual," he says. "Much of what we've been doing is on a continuum."

Still, Mr Pepper does seem to have turned P&G into a more people-friendly organisation. "I want to see people enjoy themselves, and the reason we moved to this casual dress, or business appropriate attire as we call it, is a feeling that maybe in some way it would let people be themselves more and do what they wanted to do," he says. "This has not changed the fortunes of the company. But I'm glad we did it."

So what will change the company's fortunes? Although P&G's net profits rose a respectable 12 per cent to $3.4bn in the year to June 1997, its revenues rose only 1 per cent to $35.8bn. Mr Pepper is on a mission to reinvigorate growth: he aims to double revenues in the next 10 years.

If that sounds a lot for a company already so large, it is less than Coca-Cola and McDonald's, two other US consumer goods companies, have achieved in the *past decade – thanks in large* part to the opening up of vast new markets around the world.

But there is an important distinction between these companies. In a list of the world's top brands published by the Interbrand consultancy last year, McDonald's and Coca-Cola ranked first and second respectively. P&G's highest ranking brand was the recently acquired Tampax at number 21.

In a sense, Coca-Cola and McDonald's do not have to do anything very imaginative to increase revenues. Their colas and burgers are not necessarily the best – others score higher in taste tests – but they are the world's most wanted. So their basic strategy amounts to making sure as many people as possible can get their products.

P&G does not have the luxury of these universally sought-after brands. It has to battle for every extra dollar by inventing "new, improved" products – striving to make household goods that genuinely do the job better than those of its rivals, then charging a premium price for them.

Unlike Coca-Cola, for example, which has hardly changed Coke's formula in more than a century, P&G has changed its Tide detergent 30 times in the past 50 years. "We live or die by product innovation and technology," Mr Pepper says. "We know that if we don't have it, we can't grow the business in North America. Nor can we succeed in China or Russia the way we need to."

Of course, Procter & Gamble has always been an innovator. Its Dreft was the first laundry detergent, Crest the first fluoride toothpaste on the mass market. Pampers, the disposable nappies, and Head & Shoulders, the anti-dandruff shampoo, were also mass-market firsts.

But in recent years, the pace of blockbuster innovations seems to have slowed. Apart from Olestra, a non-fattening fat that passes through the body without being digested, P&G has produced few revolutionary ideas. And in some existing categories, it has struggled to maintain market share – notably in toothpaste, where Crest has been trounced by new *products from other companies.*

Mr Pepper defends P&G's record. The company files more patents each year than almost any company in the world, including high technology companies, he says. It spent $1.3bn on research and development in the year to last June, up 5 per cent from the year before at a time when other expenses were cut.

Still, he says, P&G cannot afford to be complacent on innovation. "There are a lot of areas where we have to accelerate it," he concedes. In particular, that means pushing hard to bring out more "new to the world" products, creating whole new categories that did not previously exist.

Three examples, already being test-marketed in the US, are Dryel, a product that allows people to dry clean their clothes at home in a tumble drier; Febreze, a spray that gets rid of odours on clothes and home furnishings; and ThermaCare, a pain-relieving, heat-releasing pad that can be wrapped around aching muscles and joints.

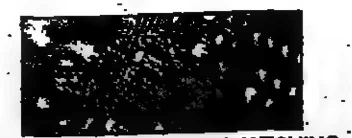
Significantly, says Mr Pepper, *the last of these draws on the* company's knowledge of paper, chemical and analgesic technologies. "A focus today is on sharing technologies across our businesses to a level we have never done before. We're very diverse across food, healthcare, paper products and laundry, and seeking to see how we can carry technologies from one to another is proving very fruitful."

Mr Pepper predicts that within the next 12 months, P&G will be test-marketing another three or four products representing either substantial reinventions of existing categories or entirely new categories. "We are looking at things that are truly new, truly breakthrough," he says.

He also also wants to achieve drastic reductions in lead times for product launches. "It's one thing to invent these things: it's another to get them into the market faster," he says. "We know we have to reduce our lead times from identification of technology and product application to taking the product globally. We need to compress that by orders of mag*nitude, cutting it in half.*"

In spite of his softer, kinder image, Mr Pepper gives no indication that P&G will become any less aggressive.

"I wouldn't express any objective we have as wanting to be a lovable company," he says. "We want to be an admired company. But I want people to love our brands."



TECHNOLOGY WORTH WATCHING

Gene linked with physical fitness is identified

Scientists at University College London have identified a gene associated with physical performance in humans.

The researchers looked for natural variants or "alleles" of the gene for an enzyme called ACE that is involved in regulating blood pressure. They found evidence that the I type of the ACE gene, rather than the D type, is associated with human endurance, according to a *report in today's Nature*, the international science journal.

They found that the I type was far more strongly represented among 33 high altitude mountaineers who can climb above 7,000m without breathing apparatus. They also found that the I type alleles were associated with army recruits who performed well in repetitive weight lifting.

The researchers believe the finding could be significant in treating strokes and cardiovascular disease. If the gene works by making cells more efficient, it might stop them from dying when their fuel supply is reduced.

University College London: UK, tel (0)1712096965; fax (0)1712096121.

Farmers may grow chemicals

Plants could become a valuable source of raw materials for certain industrial chemicals and polymers, according to a team of international scientists who have identified genes capable of processing chemicals within the plant.

When the genes – which are responsible for enzymes that create epoxy fatty acids and acetylenic fatty acids – were introduced into plants, the seeds contained significant levels of the fatty acids.

These fatty acids, which are produced by chemically processing vegetable oils or petroleum, are used to make products such as detergents, nylon, glue, paints, lubricants and plastics. The researchers in Australia, Sweden and Britain envisage that introducing the genes into oilseed plants may create a new crop for farmers.

Csiro: Australia, tel 262766545; jenifer.north@cc.csiro.au

Robots adapt to food processing

Robots have been used in the car and electronics industries for years. But the food industry – and, in particular, the poultry industry – has made comparatively little use of them.

Georgia Tech researchers are developing a low-cost robot that can handle materials with the same speed and dexterity as humans. The robot, called the Intelligent Integrated Belt Manipulator, is capable of removing items from a *conveyor belt and transferring* them into a packing carton for shipping.

The job performed by the robot is highly repetitive. As a result, it might cut down the incidence of repetitive strain injuries suffered by workers in the poultry business.

The researchers are in preliminary discussions with private companies about commercialising the technology.

Georgia Institute of Technology: US, tel 4048948057; http://www.gtri.gatech.edu/.rco.html

Umbilical cord in blood transplants

Patients suffering blood depletion from genetic disorders or the treatment of diseases such as leukemia and Aids may eventually be able to replenish their supplies by blood from discarded umbilical cords, *writes Victoria Griffith.*

Aastrum Biosciences, a biotechnology company based in Michigan, announced positive results from early clinical trials *using such transplants. If all goes* well, umbilical cord blood may eventually take the place of bone marrow transplantation, use of which is limited as the marrow must be exactly matched to the donor.

Umbilical cord blood is rich in stem cells, which are responsible for the rapid production of white blood cells, essential to fight infection, and platelets, which aid clotting. Because the blood is in a purer form, patients do not need to be precisely matched to donors. The product will be available in Europe at the end of this year.

Aastrum: US, tel 3139305555.

Vanessa Houlder

TECHNOLOGY INTERVIEW ED STAIANO

Worldwide connector

Christopher Price on Iridium's plans to launch the first satellite handheld mobile telephone

Ed Staiano is not the kind of man to let the political fallout from some nuclear bombs stand in his way.

The chief executive of Iridium, which will launch the world's first satellite handheld mobile phone system in September, was about to sign an agreement with the Indian telecommunications authorities last week when the nuclear tests took place and US sanctions were imposed.

"We have had other frustrations and have overcome those, and we will find a way through this one," says the 61-year-old former Motorola executive.

Solving problems and finding solutions have characterised Mr Staiano's 18 months as head of Iridium. These have ranged from dealing with radio astronomers angry at possible radiation leaks from Iridium's 70 low earth orbiting satellites affecting their activities to raising $5bn for the global network project.

Under his tenure, the company has grown from an offshoot of Motorola, the US electronics group, into a company with a stock market value of $675m, while putting into place a system that will allow mobile phone *calls from* anywhere in the world.

Perhaps as significantly, the company has radically altered its business plan so that instead of competing head-on with terrestrial mobile phone operators, it will partner them.

"I changed the strategy a month after taking over," says Mr Staiano. "I knew straight away that it did not make economic sense to compete with cellular, which would be able to beat us on capacity, as well as pressure us on price."

Iridium has signed agreements with 200 mobile operators in 80 countries. Some signatories have bought shares as part of their agreements, with larger investors taking seats on the board.

This has thrown up another challenge: how to get agreement from a 23-strong board drawn from 10 countries and speaking several languages. "It's tough, but we all work hard to make things happen," says Mr Staiano.

Iridium's mobile partners will market and sell the satellite system on the company's behalf. Phones, which will be little larger than current mobile models, will initially cost about $3,000. Subscribers will use their local service provider's network, switching to Iridium when they leave the signal area.

The cost of a call is likely to vary, depending largely on the regional market rate where the call is made and the destination. Callers in the US and Europe are likely to pay between $4 and $6 a minute when using the Iridium service on an international long distance call.

The target markets are business travellers, off-shore industries such as fishing and energy, governments – the US administration has built its own dedicated gateway to the system – and developing countries.

The latter have shown great interest in the Iridium service, which would enable them to have a telecoms network without the prohibitive cost of building a terrestrial infrastructure. Sixty governments have signed up for the service. Iridium has *offered* discount shares to companies and governments in developing countries as an incentive.

Mr Staiano says that as part of a charitable programme, some calls will be as low as 30 cents a minute. Governments will also have an allocation of free airtime for emergency situations.

However, the average cost of a call in developing countries is likely to be between $1 and $2 a minute. Mr Staiano points out that this is cheap compared with alternatives. "I was in South Africa recently and spoke to a mining company which has bought two aircraft just to communicate."

Ed Staiano: some calls will be as little as 30 cents a minute

Iridium's revenues will come from three sources: its satellite phone system, a paging service and its world roaming capability. The latter is seen by analysts as potentially lucrative.

International cellular usage is held back by the use of different technologies, and even where they are the same, too few roaming agreements exist between mobile companies.

However, because Iridium plans to have partners in almost every country, the *company may act as broker* and intermediary between two operators without their own roaming agreements. In addition, Iridium's technology, situated in its ground stations, will allow it to translate between the various incompatible systems, without using the satellite service.

Such potential underpins Mr Staiano's prediction that the company will be cash flow positive by the end of its first year and profitable shortly afterwards.

He also contends that by 2002, Iridium should have paid off its $3bn debt and have enough funds to pay the estimated $3bn cost of replacing all its satellites, which have a five to seven-year lifespan, due to expire in 2005.

By this time, though, Iridium will be facing competition from at least two other satellite-based systems.

ICO, an offshoot of Inmarsat, the international satellite organisation, plans to launch in 2000. Globalstar, which is backed by Loral, has said it will begin operations next year.

Marc Crossman, satellite analyst at CIBC Oppenheimer, *believes Iridium* will struggle once competitors enter the market. He estimates that Iridium needs to generate more than $1.17 a minute in revenues to cover its hardware and operating costs, but that call prices may fall to $1 a minute by 2005. "At these sort of levels, Iridium will have difficulty competing," he says.

Not surprisingly, Mr Staiano disputes Mr Crossman's cost figures and points to the sharp rise in the company's share price since its initial public offering last year as evidence of the rest of Wall Street's belief in the company's strategy.

FT GUIDE TO THE WORLD HEALTH ORGANISATION

Global advocate for health gets a shot in the arm

Many hope the newly elected head of the WHO will restore morale and provide fresh direction, says **Frances Williams**

Why is the WHO in the news and what is WHO anyway?
The WHO – the World Health Organisation – has *just held* its annual assembly to celebrate its 50th birthday and to elect a new director-general to replace the unpopular Hiroshi Nakajima of Japan. The feisty Gro Harlem Brundtland, former Norwegian premier, will take over at the helm of the 191-member WHO in July. All has not been well with WHO in recent years. Many people hope Dr Brundtland will inject new vigour into the middle-aged United Nations agency.

So what ails WHO?
Basically WHO's problems can be split into two parts. The first concerns the erosion of its pre-eminent role in world health issues. The second relates to *how* the organisation is structured and managed.

OK, let's start with the big picture.
Well, in the past WHO was the only global outfit dealing with world health, at a time when the biggest challenge was tackling infectious diseases. Indeed, its greatest success was the eradication of smallpox in the 1970s. *WHO's childhood* immunisation programme now reaches 90 per cent of the world's children, from 5 per cent 25 years ago, and several more diseases including polio, leprosy and guinea worm disease are on course for elimination. But the burden of ill-health, even in poorer countries, is now shifting towards non-communicable "lifestyle" illnesses such as heart disease, cancer and *mental illness*, which the WHO is less well-equipped to tackle.

Why?
"Lifestyle" diseases raise more complex issues and WHO has a less obvious role. Its $420m-a-year regular budget is no more than that of a medium-sized hospital in a western country and even though it gets nearly as much again through voluntary funding its total resources are only about one-third of spending by the World Bank on health. Critics argue that WHO has spread itself too thinly and has not thought enough about where it should focus its limited resources to make the most impact.

If WHO has no money, what can it do?
WHO's role is that of an advocate for health. Its job is to recommend, cajole and help governments and others to act on the best technical advice and information. It can also co-ordinate research worldwide – as it is doing on the health effects of mobile telephones – and identify gaps in knowledge. And it also collects and publishes information.

One successful Nakajima initiative was to set up a division focusing on emerging and re-emerging diseases such as "mad cow" disease, Ebola and chicken flu that can respond quickly to outbreaks. But WHO lost leadership of the Aids campaign when responsibility was transferred to a new UN agency. Its statistical programme is underfunded.

And Dr Nakajima, a notoriously poor communicator, has failed to convey a clear sense of direction, either to insiders or the outside world.

So what's Dr Brundtland going to do about it?
She aims to push health up the international political agenda by hammering home the connection between health and economic development – poor health is both a cause and a result of poverty.

Dr Brundtland also wants to focus on helping countries build better health systems that reach the poor. More specifically she plans two high-profile *projects*, to "roll back malaria" and discourage smoking, especially among young people in poorer nations.

Why these priorities?
Tobacco is one of the world's biggest killers and its use is rising in the developing world, especially in Asia.

Malaria remains a huge problem in Africa where it takes a heavy economic toll in low productivity, lost earnings and in deterring foreign investment.

What about WHO's internal problems?
The WHO is top-heavy, the decision-making structure is too dispersed and the organisation has been unable to respond flexibly to challenges. Dr Nakajima has not managed to impose his authority on the six semi-autonomous regions. Staff morale has been sapped by charges of croneyism, incompetence and irregularities in the award of research contracts. Dr Brundtland says she will make WHO's structure flatter and ensure the organisation speaks with one voice rather than seven.

One character seems to be absent from the feast – the *private sector*.
The WHO hasn't come to terms with how it should co-operate with the private sector. Several big drugs companies are helping with important WHO programmes by giving medicines and vaccines, or taking part in WHO-sponsored trials. But many WHO members (and staff), suspicious of the profit motive in health, prefer to keep their distance.

WHO's next: even in poor countries, ill-health is shifting to 'lifestyle' diseases

Panos Pictures

EURO PRICES

EQUITIES

Europe's high days and holidays

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

Europe cruised into today's Ascension Day holiday in fairly buoyant mood with bourses in Brussels, Frankfurt, Paris and Vienna recording all-time highs.

Markets were given an initial lift by the US Federal Reserve's decision on Tuesday not to raise interest rates.

In the afternoon, a wider-than-expected US trade deficit helped US Treasury bonds and gave a knock-on lift to the European bond markets. A trade deficit lowers the rate of gross domestic product growth and may reduce the chance of a subsequent rise in US rates.

The FTSE Eurotop 300 index rose 7.89, or 0.7 per cent, to 1,225.22. The FTSE Eurotop 100 index gained 15.6 to 2,809.96.

An even stronger performance was turned in by the FTSE Ebloc 100 index, which comprises stocks traded in likely euro member countries – it rose 12.3, or 1.2 per cent, to 1,028.92.

As part of the preparations for the introduction of the single currency, the London International Financial Futures Exchange said it would introduce euro-dominated government bond contracts for Germany and Italy in June.

The automobile sector was once again the strongest in Europe, with a scrip issue from BMW being greeted with acclaim by investors. Volkswagen hitched a ride on its German rival's strength, gaining Ecu 14.4 to Ecu 749.11.

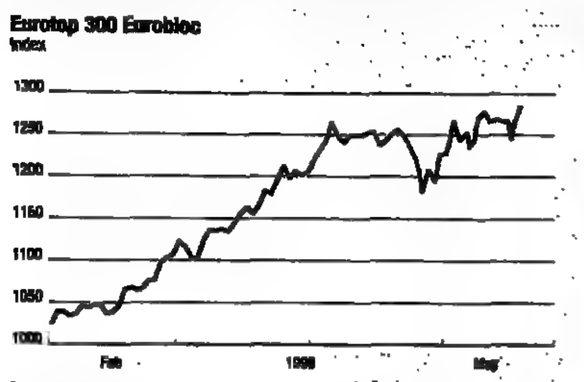
Strong retailers

Retailers were also strong, with the sector gaining 2 per cent. The sector is dominated by British groups but this time, the impetus came from the French company Pinault-Printemps, which advanced Ecu 39.2 to Ecu 727.16.

A champagne performance from luxury goods group LVMH, which will shortly make a presentation to US investors, helped the alcoholic beverages sector to climb 1.9 per cent. LVMH advanced Ecu 8.8 to Ecu 200.42.

Newspaper speculation that ABN Amro might buy Bear Stearns of the US – although denied by the Dutch bank – sent its shares up Ecu 0.8 to Ecu 23.26 in busy trading.

Eurotop 300 Eurobloc
Index



Source: FTSE International

FTSE Actuaries Share Indices — European series

May 20

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Ecu)
FTSE Eurotop 300	1225.22	+0.65	+7.89	1.95	12.40	1247.97
FTSE Eurotop 100	2809.96	+0.56	+15.60	2.01	16.59	996.39
FTSE Ebloc 100	1028.92	+1.21	+12.30	1.61	5.20	1034.24
[illegible]						

THREE MONTH EURO FUTURES (LIFFE) / THREE MONTH EURO OPTIONS (LIFFE) / FTSE EUROTOP 100 INDEX FUTURES (LIFFE)

[illegible]

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	2817.0	2802.0	+6.0	2817.0	[illegible]	45	808
Sep		2826.0	+6.0			0	5
Dec			+0			0	0

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

[illegible]

Calls – Puts – Premiums shown are based on settlement prices.

OTHER INDICES

	May 20	May 19	May 18	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3318.15	3280.62	3231.71	[illegible]	2374.51	[illegible]	2376.42
DJ Euro Stx 50	3352.25	3313.72	3253.23	3352.25	2456.91	3352.25	2685.32
MSCI Europe	1213.65*	1200.00	1200.00	1248.82	980.50	1248.82	610.75

Source: Datastream of FT Information. *Subject to revision next day. (u) unavailable.

FTSE EUROTOP 300

Name	Price (Ecu)	Chge + or –	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
[illegible]					
AUTOMOBILES					
[illegible]					
BANKS, RETAIL					
[illegible]					
BREWERIES, PUBS & RESTAURANTS					
[illegible]					
BUILDING MATERIALS & MERCHANTS					
[illegible]					
CHEMICALS					
[illegible]					
CONSTRUCTION					
[illegible]					
DISTRIBUTORS					
[illegible]					
DIVERSIFIED INDUSTRIALS					
[illegible]					
ELECTRICITY					
[illegible]					
ELECTRONIC & ELECTRICAL EQPT.					
[illegible]					
ENGINEERING					
[illegible]					
EXTRACTIVE INDUSTRIES					
[illegible]					
FOOD PRODUCERS					
[illegible]					
GAS DISTRIBUTION					
[illegible]					
HEALTH CARE					
[illegible]					
HOUSEHOLD GOODS & TEXTILES					
[illegible]					
INFORMATION TECHNOLOGY					
[illegible]					
INSURANCE					
[illegible]					
INVESTMENT COMPANIES					
[illegible]					
LEISURE & HOTELS					
[illegible]					
LIFE ASSURANCE					
[illegible]					
MEDIA					
[illegible]					
OIL, EXPLORATION & PRODUCTION					
[illegible]					
OIL, INTEGRATED					
[illegible]					
OTHER FINANCIAL					
[illegible]					
PAPER, PACKAGING & PRINTING					
[illegible]					
PHARMACEUTICALS					
[illegible]					
PROPERTY					
[illegible]					
RETAILERS, FOOD					
[illegible]					
RETAILERS, GENERAL					
[illegible]					
SUPPORT SERVICES					
[illegible]					
TELECOMMUNICATIONS					
[illegible]					
TOBACCO					
[illegible]					
TRANSPORT					
[illegible]					
WATER					
[illegible]					

Notes: [illegible]

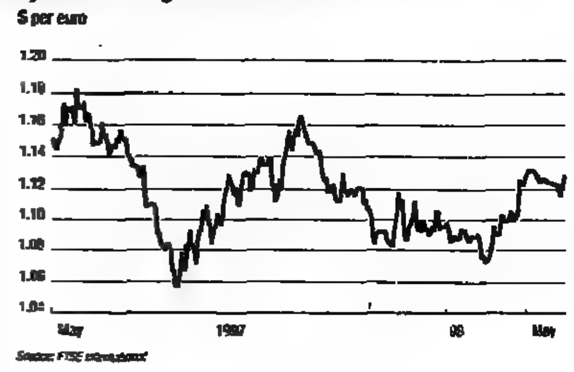
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

May 20	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.064310	–0.0034	–0.02	[illegible]	–0.02
Belgium	BEF	41.243828	+0.0186	+0.05	–0.0122	[illegible]
Czech Republic	CZK	36.653051	+0.1057	+0.29	–0.0730	–0.20
Denmark	DKK	7.618450	+0.0042	+0.05	+0.0025	+0.03
Finland	FIM	6.073892	–0.0020	–0.03	–0.0014	–0.02
France	FRF	6.703883	+0.0007	[illegible]	+0.0010	+0.02
Germany	DEM	1.998734	[illegible]	–0.02	–0.0004	–0.02
Greece	GRD	345.492989	+0.1631	+0.05	–1.1942	–0.34
Hungary	HUF	238.317948	+1.2772	+0.54	+2.0635	+0.87
Ireland	IEP	0.794525	+0.0086	+0.10	+0.0008	+0.11
Italy	ITL	1970.954756	+0.0497	+0.00	–0.2030	–0.01
Luxembourg	LUF	[illegible]	+0.0186	+0.05	–0.0122	[illegible]
Netherlands	NLG	2.252687	–0.0001	–0.01	+0.0001	+0.00
Norway	NOK	8.430027	+0.0201	[illegible]	+0.0421	[illegible]
Poland	PLN	3.884545	[illegible]	[illegible]	+0.0509	+1.30
Portugal	PTE	204.798811	[illegible]	–0.01	–0.0500	–0.02
Romania	ROL	9502.955908	+77.5217	+0.81	+41.7982	+0.44
Russia	RUB	6.954916	+0.0586	+0.85	+0.0302	+0.44
Slovakia	SKK	38.559753	+0.1835	[illegible]	+0.0238	+0.06
Spain	ESP	169.820801	+0.0769	+0.04	+0.1361	–0.08
Sweden	SEK	8.703526	–0.0026	[illegible]	+0.0631	+0.73
Switzerland	CHF	1.666515	+0.0055	+0.33	+0.0045	+0.27
United Kingdom	GBP	0.691981	+0.0023	+0.34	+0.0038	+0.55
ECU	ECU	1.014950	+0.0005	+0.05	–0.0006	–0.06
Americas						
Brazil	BRL	1.297144	+0.0109	+0.81	+0.0070	+0.54
Canada	[illegible]	1.636703	+0.0125	+0.77	+0.0141	+0.87
Mexico	MXN	9.717008	+0.0930	+0.97	+0.1345	+1.40
United States	USD	1.129228	+0.0089	[illegible]	+0.0047	+0.42
Pacific/Middle East/Africa						
Australia	AUD	1.805410	+0.0096	+0.53	+0.0181	+1.01
Hong Kong	HKD	8.751066	+0.0692	+0.80	+0.0380	+0.44
Japan	JPY	153.710531	+1.2476	+0.82	+2.9809	+1.98
Singapore	SGD	[illegible]	+0.0121	+0.66	+0.0016	+0.09
South Africa	ZAR	5.763016	+0.0522	+0.91	+0.0488	+0.85

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends.

Synthetic Euro against the dollar
$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

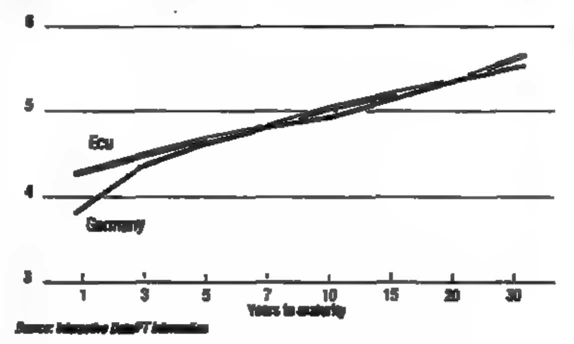
Bilateral conversion rates against the D-Mark

May 20	Fixed rate	Market rate	Diff fxd v mkt%	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	[illegible]						
Belgium	[illegible]						
France	[illegible]						
Finland	[illegible]						
Ireland	[illegible]						
Italy	[illegible]						
Luxembourg	[illegible]						
Netherlands	[illegible]						
Portugal	[illegible]						
Spain	[illegible]						
Germany	1						

Source: [illegible]

BONDS

Bond yield curve
Per cent (May 20 1998)



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

May 20	Red date	Coupon	S&P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
[illegible]								
Euro Issues								
[illegible]								
Ecu Issues								
[illegible]								

Source: Interactive Data/FT Information. [illegible]

GOVERNMENT BOND SPREADS vs ECU

May 20	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
[illegible]						

Source: Interactive Data/FT Information. [illegible]

EUROZONE CREDIT SPREADS vs ECU

May 20	S&P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
[illegible]							

Source: Interactive Data/FT Information. [illegible]

Markets lifted as Asia crisis hits US trade

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Relief that the Federal Reserve left interest rates unchanged, and a sharp rise in the US trade deficit, lifted bond markets yesterday as investors saw first signs that the Asian crisis was washing up on US shores.

European bonds had a busy session, rallying on the conviction that the developments pointed to steady interest rates, with French 10-year bond yields falling below 5 per cent again to levels achieved earlier this month.

German bund futures broke through technical resistance, and in the UK, gilts received an added boost with the successful auction of £3bn of 30-year stock.

The US Commerce Department said the trade gap widened to $13.03bn in March, against an expected narrowing to $11.65bn, the first sure sign that the Asian crisis is helping to slow US economic growth. The figures revealed exports to Asia were slowing, while imports from the region had picked up.

"More imports from Asia suggests disinflationary effects are still feeding through which will keep inflation down – which is good for bonds," said Jeremy Hawkins, chief economist at Bank of America.

Analysts said markets would be on edge today, awaiting signs from Indonesia of either continued political stalemate or a fresh bout of unrest, which would spark further flight to quality and boost bond markets.

Active hedge fund buying sent prices rallying in US TREASURIES.

The 30-year bond, the benchmark for long-term interest rates, had climbed 22/32 by early afternoon to 108 5/32, sending the yield lower to 5.887 per cent.

The price of the 10-year note traded 11/32 higher to 100¾, yielding 5.608 per cent, while the two-year note gained 1/32 to 100¼, yielding 5.554 per cent.

The trade data helped the morning market, although trading had slowed by midday. "The trade balance figures indicated a [potential] downward revision to GDP [gross domestic product], and that's a slight positive," said Tom O'Connell, senior government trader at First Chicago Capital Markets.

German BUND futures broke through technical resistance of 107, with the 10-year contract settling at 107.28, up 0.33, in London, while in Frankfurt trading volume reached 445,000 contracts.

The spread of 10-year Treasuries over bunds widened to 77 basis points initially, then fell back to 75 basis points.

The release of figures showing that German money supply had slowed in April after expanding the previous month offered support for the view that no interest rate change could be currently justified.

The Bundesbank said M3, its main policy indicator, grew at an annualised 4.7 per cent last month against 5.1 per cent in March.

One bond analyst said any flight to quality as a result of Indonesian woes would most benefit the German currency and bonds. "People are going to be waking up and looking at Indonesia," he said, noting continued interest from investors in five-year dated bonds. "German insurance companies and other domestics are afraid of the short end [of the yield curve], so they're going for the least risky area."

UK GILTS closed higher, boosted initially by a strong performance of US Treasuries, and swept forward after the successful auction of 30-year government bonds, which was covered 2.26 times.

The 10-year future settled 31 basis points higher at 108.09 with volume of 135,000 contracts traded – the second highest level for the June contract. In the cash market the yield spread over bunds was unchanged at 104 basis points.

However, traders will today be watching for retail sales figures for April, which are expected to reveal stronger high street sales.

David Coleman, chief economist at CIBC World Markets, said: "That [the auction] was another feather in the cap for the gilt market. There seems to be some underlying demand for gilts. The one short-term risk is that we see some stronger numbers tomorrow and the [yield] spread does push a little wider."

Unchanged US rates give fillip to trade

INTERNATIONAL BONDS

By Edward Luce

The market took its cue yesterday from the decision on Tuesday to leave US interest rates unchanged, with one of the busiest days in the primary sector for weeks.

ITALY led the charge with its first fixed-rate dollar offering in almost two years. The 10-year, $2bn issue was originally earmarked as a $1.5bn offering. Lehman Brothers and Goldman Sachs, lead managers, also tightened the launch spread from a planned 34 basis points to 33 basis points.

"Sovereign paper is very rare nowadays, so investors were enthusiastic," said one official. The bond, Italy's first 10-year dollar offering since 1993, tightened by about half a basis point.

FEDERAL HOME LOAN BANKS also took advantage of the rejuvenated atmosphere with a two-year $1bn offering.

Barclays Capital, sole lead, said investors were attracted by its short duration, since the US Treasury curve is so flat between two and five years. The bond, which tightened by about one basis point from its launch spread of 17 basis points, was also aided by the US Treasury's recent decision to lighten issuance at the short end of the curve.

DOLPHIN TELECOM, the wholly-owned subsidiary of Telesystems, the Canadian company, launched a rare euro-denominated high-yield bond yesterday.

Proceeds from the E238m offering, which combined with a simultaneous US$263m offering, will go towards the construction of a digital mobile network in the UK, Germany and France.

The 10-year bond was offered at a deep discount and will not pay a coupon in its first five years. Assuming it is not called, it will then pay a spread of 665 basis points over the euro benchmark. It was lead managed by Bear Stearns and CIBC.

NATIONAL AUSTRALIA BANK also braved the fledgling euro-denominated market with the first bond in euros by an Australian borrower. SBC Warburg, lead manager, said NAB wanted to exploit the mismatch between demand and supply in the euro sector. The three-year E400m offering was priced flat to Ecu Libor.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Republic of Italy	2bn	6.00	99.755R	May 2008	0.325R	+33(5⅝%May08)	Goldman/Lehman
Federal Home Loan Banks	1bn	5.625#	99.815R	Jun 2000	0.125R	+17(5⅞%Apr00)	Barclays Capital
Sears CAMT II, Class A(a)‡	500	5.80(m)	99.57208R	Aug 2001	0.225R	+42(5⅝%Feb01)	CSFB
D-MARKS							
ECCO No 1, Class A(b)	1bn	5.25§	99.651R	Jun 2008	0.325R	+35(5¼Jan08)	Barclays Bank Frankfurt
ECCO No 1, Class B(b)	90.361	5.50§	99.654R	Jun 2008	0.375R	+60(5¼Jan08)	Barclays Bank Frankfurt
STERLING							
Royal Bank of Canada‡	250	(c)	99.941R	Jun 2003	0.175R	-	Barclays Capital
GECC	100	7.00(s)	99.765R	Aug 1999	0.10R	+34(6%Aug99)	JP Morgan Securities
FRENCH FRANCS							
Schig	1.75bn	5.125	99.43R	Jun 2010	0.30R	+10§	SG
Argentaria Global Finance(h)	300	zero	100.00	May 2008	zero	-	Paribas
ITALIAN LIRE							
World Bank‡	100bn	(d)	100.00R	Jun 2008	0.40R	-	JP Morgan Securities
SWISS FRANCS							
Province of British Columbia	300	3.00	102.60	Jun 2004	2.25	-	SBC Warburg DR
EUROS(e)							
National Australia Bank‡	400	(f)	100.015R	Jun 2001	0.10R	-	SBC Warburg DR
Dolphin Telecom§	238	(l1)	56.783R	Jun 2008	3.00R	+665(Apr08)	Bear Stearns/CIBC
PESETAS							
Inst de Credito Oficial‡	25bn	(g)	100.00	May 2008	0.25	-	JP Morgan
LW Rentenbank	10bn	2.50	94.52R	Jul 2001	0.10R	-	Caja de Madrid
Norddeutsche Landesbank	10bn	2.50	94.54R	Jul 2001	0.10R	-	Caja de Madrid
NEW ZEALAND DOLLARS							
Bayerische Vereinsbank	100	8.00	101.24	Jun 2001	1.50	-	RBC Dominion Securities
GREEK DRACHMA							
BNG	10bn	8.25	99.86R	Jun 2001	0.225R	-	ING Barings

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ♦Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Credit Account Master Trust. Legal maturity: Aug 05. Av life: 2.74 yrs. a1) Class B: $35.3m. b) European Credit Card Offerings. Originator: First USA. c) 3-mth Libor flat. d) 7⅜% to 19/6/00, then 3-mth Libor +30bp; interest accrues on days Libor in between 3⅝-6½%. e) Payments in Ecu prior to Emu. Spread relates to French government Ecu bonds. f) 3-mth Libor flat. g) 88% of the TIC-10. h) Redeemed at par + 109% of the increase in the CAC-40 index. § Over interpolated yield. § Callable after 5 yrs. l1) zero for 1st 5 yrs, then 11⅜%. § Long 1st coupon. m) Monthly. s) Short 1st coupon.

NEWS DIGEST

EUROBONDS

Bulgaria expected to launch $250-$300m issue

Bulgaria is gearing up to launch its inaugural eurobond, which is expected to have a five-year maturity and raise between $250m and $300m. J. P. Morgan and Merrill Lynch are acting as advisers.

The issue was originally planned for last autumn but delayed in the aftermath of the Asian crisis. Alexander Bozhkov, deputy prime minister, said the government expected to take a decision in the next few days.

Speaking at a investment conference in London organised by fund managers Regent Pacific, Mr Bozhkov said that the borrowing was essentially to establish a benchmark which recognised the positive transformation in the economy over the past year, particularly since the introduction last July of a currency board pegged to the D-Mark.

"Foreign currency reserves have surged to over $2.5bn. We have ongoing programmes with the International Monetary Fund and World Bank and growing support from the European Bank for Reconstruction and Development. We also expect foreign private investment of around $1bn this year both into privatisation and greenfield projects," Mr Bozhkov said.

"We don't really need the money. But we want to establish a benchmark in view of the heavy infrastructure and other investment needed to modernise the economy."

Bulgaria has already obtained a B2 positive outlook rating form Moody's and a B+ rating from Fitch-IBCA. This puts Bulgaria in a similar position to Argentina and Brazil, whose sovereign bonds are currently trading in a range of between 340 and 400 basis points range above US Treasuries. **Anthony Robinson**

MILLENNIUM BOMB

Moody's warns Japanese banks

Japanese banks could suffer dramatic disruption in the year 2000, as they have failed to address the potential millennium computer bomb, according to a report from Moody's Investors Service.

Moody's argues that "unlike other global banks, the Japanese say that they do not have any major problems, and how they achieved that happy state of affairs is something of a mystery."

Many computers and microchips will fail to differentiate between 1900 and 2000 and could break down over the Millennium. Citicorp, of the US, has already announced it will spend $600m on making its computer systems recognise the year 2000 and Barclays Bank, of the UK, is to spend $400m.

In a recent survey, 49 Japanese banks had announced plans to spend $249m in total, raising concerns over potential damage to the financial system from computer problems. Moody's says Japanese banks may be too weighed down by problems with the domestic economy and the extent of their bad loans to look as far as potential problems in 2000. **Simon Davies, Capital Markets Editor**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

[illegible]

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

BOND FUTURES AND OPTIONS

France

[illegible]

Germany

[illegible]

Italy

[illegible]

Spain

[illegible]

UK

[illegible]

US

[illegible]

Japan

[illegible]

Ecu

[illegible]

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

[illegible]

UK BONDS

FTSE Actuaries Govt. Securities

UK Indices

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

Wider trade gap pushes dollar lower

MARKETS REPORT

By Robert Chote

An unexpectedly big US trade deficit pushed the dollar lower against the D-mark yesterday, while the Japanese yen took some comfort from the uneasy calm which has followed recent violent protests in Indonesia.

Trade figures normally have more impact on the dollar's exchange rate with the yen rather than the D-Mark. But not this time. The dollar fell 1.5 pfennigs to DM1.77, but was steady at Y136.1.

The US trade deficit widened by 7 per cent to $13bn in March, compared to market expectations of less than $12bn. "It is the strength of the American economy and the economic difficulties facing certain Asian countries that are driving much of the changes in these numbers", said Robert Shapiro, commerce under-secretary.

The dollar fell on the perception that imports are going into inventories and that in time this will weaken domestic production. This in turn would ease pressure for higher interest rates.

Marc Chandler, with Deutsche Morgan Grenfell in New York, noted that the reaction of the currency to current account movements was not clear cut and that the capital account was key.

Investors anxious about the dollar might be concerned about the apparent excess dollar holdings of European central banks and the perception that Europeans might keep their capital at home to use in a broadening equity market.

Mr Chandler predicted that the dollar might head back above DM1.80 in the short term, but decline to DM1.75 or lower at year-end.

"The downward trend in $/DM remains firmly in place", argued Tony Norfield at ABN-Amro. He said that bouyant production in France and Spain, plus strong private lending in Germany, pointed to a rise in core European interest rates before late July.

He noted that thin holiday trade next week posed the risk of intervention to support the yen. Nerves also remained tender because of the Indonesian situation and downgrades in credit ratings for Japanese banks.

■ The Swiss National Bank's promise to counter any "unwelcome" rise in the Swiss franc by adding liquidity helped push it down.

The D-Mark closed at 83.4 centimes, up slightly from Tuesday's close of 83.1 centimes and early trading below 83. The Swiss franc was also undermined as it lost some of its attraction as a safe haven from problems in Indonesia and Russia.

Meanwhile the D-Mark also made ground on the Norwegian krone, closing at NKr4.218. Investors were disappointed that Norwegian interest rates have not risen as the krone weakened.

■ Sterling had a relatively quiet day, with attention focussing on today's retail sales data for April.

Against a trade-weighted basket of other currencies, the pound fell a tenth of a percentage point to 103 per cent of its 1990 value. Against the D-Mark, it fell 1.1 pfennigs to DM2.8880.

Brian Kiely, technical strategist at Royal Bank of Scotland, said that sterling was teetering at the edge of a bearish precipice at DM2.8860/2.8743. He said there remained a risk of an added squeeze to DM2.95, but that there would be an eventual push to DM2.8081. "Later on this year we could even see a rush down to DM2.65", he added.

The market remains sensitive to speculation about Britain's eventual participation in the European single currency. The forward market puts sterling at DM2.67 in four years' time, not far above the DM2.60 seen by some economists as a reasonable entry rate.

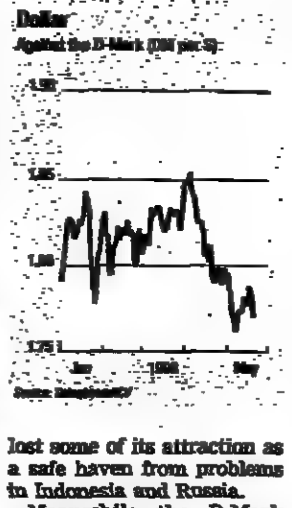
■ The Polish central bank said yesterday that it was leaving its exchange rate policy unchanged, as it announced cuts in key interest rates. The zloty depreciates by 0.8 per cent a month.

Poland's monetary policy council reduced the lomabrd and discount rates by one percentage point to 25 and 23.5 per cent respectively.

Hanna Gronkiewicz-Waltz, the central bank president, said the rate cut was possible because of "the hitherto restrictive monetary policy and a tighter fiscal policy". Beshara Madi, at Morgan Stanley, said the move was unlikely to hurt the zloty.

Dollar

Against the D-Mark (DM per $)



■ POUND IN NEW YORK

May 20	—Latest—	— Prev. close —
£ spot	1.6335	1.6215
1 mth	1.6310	1.6180
3 mth	1.6262	1.6145
1 yr	1.6067	1.5972

■ OTHER CURRENCIES

May 20	£	$
Czech Rp	52.2810 - 52.3100	32.4260 - 32.4790
Hungary	344.342 - 344.825	211.070 - 211.080
Iran	4820.60 - 4894.20	3000.00 - 3000.05
Kuwait	0.4952 - 0.4958	0.3060 - 0.3062
Peru	4.8301 - 4.8420	2.9430 - 2.9440
Poland	5.6039 - 5.6229	3.4350 - 3.4460
Russia	10.0462 - 10.0544	6.1390 - 6.1400
U.A.E.	5.9016 - 5.9052	3.6727 - 3.6731

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.480	92.470	-	92.480	92.470	[illegible]	161282
Sep	92.570	92.550	-0.010	92.570	92.540	16462	[illegible]
Dec	92.710	92.690	-0.010	92.710	92.680	19223	122051
Mar	92.890	92.870	-0.010	92.900	92.870	15870	103898
Jun	93.090	93.065	-0.015	93.100	93.080	11053	83111

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
92375	0.105			0.010		
92500	0.025	0.1[illegible]	0.270	0.055	0.075	0.080
92625	0.005			0.160		

Est. vol. total, Calls 2407 Puts 2205. Previous day's open int., Calls 421258 Puts 305010

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Bank	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25		
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25		
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

● Members of London Investment Banking Association

* In administration

Mining groups recall expatriates from Indonesia

By Kenneth Gooding, Mining Correspondent

International mining companies have been recalling some expatriate employees from Indonesia's main towns because of the political upheavals in the country. But they insisted yesterday that there had been little impact on their mining operations, located in remote areas.

Nevertheless, analysts suggest that, if by some remote chance Indonesia's mines were brought to a stand-still, the impact on world markets would be severe.

Both copper and nickel, where the markets are currently expected to be over-supplied, would be particularly affected, as well as tin, where there is an immediate shortage.

Last year, Indonesia accounted for about 40 per cent of the western world's traded steam coal, 30 per cent of tin supply, 11 per cent of nickel, 6 per cent of copper, 5 per cent of gold, and 1 per cent of aluminium.

"The steam coal market is over-supplied at the moment and prices are down, but Indonesia's exports could not be replaced quickly and easily if any problem lasted any length of time," said David Price at the International Coal Report.

Tony Warwick-Ching, analyst at Flemings Global Mining Group, said: "The copper market would take it very seriously if anything happened to Indonesian supply. LME [London Metal Exchange] stocks are low and the market would be very sensitive to any drop in supply."

At Macquarie Equities, Jim Lennon, analyst, said: "The tin market is already very tight and any sign of a reduction in production or exports could have a dramatic impact on prices."

Indonesia contains the world's second biggest copper mine, Grasberg, owned by Freeport McMoRan of the US, and located in Irian Jaya, 2,000 miles from Jakarta. It is being rapidly expanded and scheduled to produce 770,000 tonnes of copper and 2.7m troy ounces of gold (84 tonnes) this year.

Freeport said: "The mine is working better than ever." Freeport's Jakarta office remains open, staffed by Indonesia employees, but 10 expatriates had moved to Singapore on the advice of the US Embassy.

Rio Tinto, the world's biggest mining group, had moved 28 expatriates to Australia from Balikpapan, the nearest town to its Kaltim Prima coal mine and Kelian gold mine, the company said. About half the 12 expatriates in Jakarta had also left the country. There were no problems at the mine sites, "and we are not anticipating any problems."

Inco of Canada, the world's biggest nickel producer, said its Jakarta office remained open but two expatriates had left. All 272 expatriates at the PT Inco mine remained on site, however. Expansion of the mine, located 1,000 miles from Jakarta at Sulawesi was going ahead as planned, although there had been some component supply problems.

PT Tambang Timah, Indonesia's big domestic tin producer, also said output was normal.

So far, the only reported impact of the upheavals on metals groups involves the 200,000 tonnes a year Gresik copper smelter, because Mitsubishi of Japan said work, 90 per cent completed, might be temporarily halted.

Large US crude oil stocks hit prices

MARKETS REPORT

By Gary Mead and Kenneth Gooding

The biggest stock of crude oil in the US since August 1993 depressed futures prices yesterday, when on the International Petroleum Exchange Brent blend for July slid 11 cents to $14.27 a barrel in late trading.

The American Petroleum Institute published data showing a rise of 8.79m barrels in US crude stocks last week, to 353.13m barrels, when the market expected a fall of some 2.5m barrels.

A blockade of the world's longest railway line, Russia's trans-Siberian, helped boost aluminium prices on the London Metal Exchange.

Russian coal miners, desperate after not being paid for months, cut the country in half by blocking all its east-west rail lines and sparking a state of emergency in Siberia where some of Russia's big aluminium smelters are located.

Oleg Presman, deputy general manager of Krasnoyarsk, Russia's second biggest smelter, told Reuters: "We still have stocks [of alumina, the raw material for aluminium] for some days. And then – catastrophe."

Traders suggested sentiment was also affected by the International Primary Aluminium Institute announcing daily output fell slightly in April. Aluminium for delivery in three months on the LME closed $10 a tonne up at $1,391.

On the London International Financial Futures Exchange coffee trading was slow in the morning, where the July contract gained $39 but a mere 914 lots were traded. Business gathered pace in the afternoon, when a further 2,393 lots were traded, and July closed at $1,920, a gain of $15.

Koreans shake gold market

By Kenneth Gooding

Patriotic South Koreans played havoc with the gold market in the first quarter by giving 223 tonnes of the metal to their government to help pay off some of the country's debts.

About 3.5m Koreans responded to the "Save the Nation" gold collection schemes after their country was caught up in the Asian economic turmoil.

One quarter of all households supplied some gold – an average of 65 grams each, or just over 2 ounces – mostly in high-quality jewellery.

Indonesians also added to the gold market's woes by selling a net 64 tonnes, sometimes to buy necessities after the value of their domestic currency collapsed.

Others were tempted to take profits as the domestic price of gold soared.

Indonesian jewellers were also hastily cutting back stocks.

The unprecedented sales in the two countries cut gold demand in the first quarter by 55 per cent to 342.1 tonnes or 11m troy ounces, according to the World Gold Council, a promotional organisation financed by some big producers.

The Council, which monitors 21 countries accounting for about 80 per cent of global demand, said it was the first significant fall in gold consumption since it launched its survey in 1992.

George Milling-Stanley, the Council's manager of gold market analysis, said the once in a lifetime Korean scheme ended in March and the trends were positive for gold again.

In the first quarter, India re-emphasised its role as the world's biggest gold consuming nation, taking a record 190.7 tonnes, 17 per cent above the total for the same months of 1997.

Mr Milling-Stanley said sales were boosted by the government's further deregulation of the gold market and a smaller price premium in India compared with the international dollar price.

There were also record quarterly gold sales in the US, where they were up by 10 per cent to 88.1 tonnes.

Jewellery sales surged in tandem with the US economy, and gold coin purchases jumped by 66 per cent, as some investors saw them as a good bet when the gold price in dollar terms fell to an 18½-year low.

China's urban cool develop a thirst for a cappuccino

James Harding reports on an embryonic coffee market

"Coffee brings its own special atmosphere, its own sense of romance," says Yang Qingqing, Shanghai's best-known fashion columnist and self-appointed style guru. "The young generation drink coffee not because they prefer it to tea. The real reason is that coffee represents modern, western culture."

In China's largest city, thousands of cafes have opened in the last couple of years and a taste for a cappuccino has become a badge of cool. Much more than a beverage, coffee has become a mark of cosmopolitan culture and a milestone on the path to prosperity.

Rural China, by contrast, remains a devoutly tea-drinking society. Instant coffee is practically non-existent in the poorer households of the Chinese countryside, but has become a regular feature of urban homes. According to a Gallup market survey, just 1 per cent of rural homes have a jar of coffee granules, but in Shanghai 51 per cent of houses do.

The fashion for coffee in more prosperous urban areas, though, has been enough to multiply the coffee business in China several times over.

Theo Klauser, managing director of Nestlé China, says sales of Nescafe, by far the best-selling brand of instant coffee, have "increased five times in the last five years ... although from a small base". Sales from the Nescafe plant in Dongguan were worth RMB450m ($54.4m) last year, he says.

The International Coffee Organisation recently sent a delegation to Beijing and Shanghai to promote coffee consumption and provide support to China's coffee producers in Yunnan, in the country's south-west.

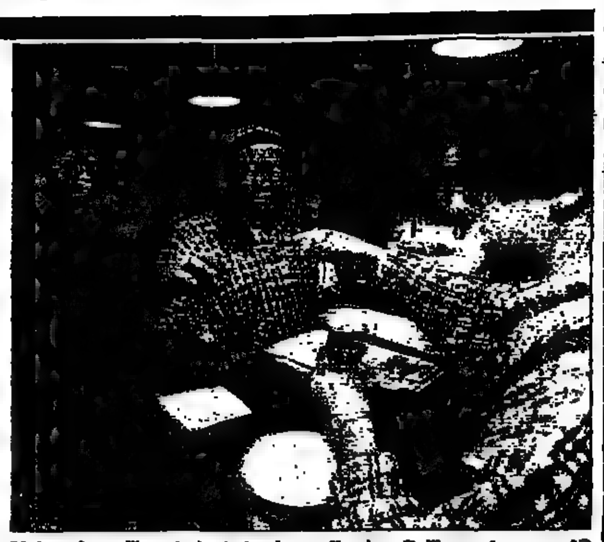
As with so many other consumer goods in China, the massive potential of the market can have a dizzying effect on the industry.

Coffee consumption in mainland China is one cup a person, a year, according to Nestlé, but wealth and greater integration with the west has tended to develop a thirst for coffee in Asia.

In Taiwan, people drink 38 cups each year, in Hong Kong 44 cups and in Japan 330 cups. This compares with 440 in the UK, 463 in the US and 1,100 in Sweden.

Jonathan Eisenberg, who set up a gourmet coffee shop in Shanghai and a sister shop in Beijing called The Daily Grind, says: "The Chinese will go for coffee. Look at what has happened in Japan, Korea and Hong Kong. But they will probably go for a US-style coffee, something that is diluted with milk." Making a good cup of coffee in Shanghai, though, has its problems. "To do Asian-style coffee you need foam," which means buying a lot of good quality milk, notes Mr Eisenberg. For a take-away coffee shop, one of the chief headaches is cups and lids, he says: "They are often more expensive than the beans." Tariffs on coffee beans are also very high, prompting Mr Eisenberg to buy beans roasted in China.

The country's largest processing operation, the Yunnan Coffee Processing Plant, aims to increase annual production of 1,500 tonnes last year to 5,000 tonnes in 2000.



Make mine milky: students buying coffee in a Beijing cafe AP

But the company expects the business environment to get tougher as more foreign brands and coffee importers target the market. "We are trying to set up a sales network throughout China's major coastal cities, but we have a long way to go. Cheaper and more famous foreign coffee companies promise to be a big challenge."

Mr Eisenberg cautions against excessive enthusiasm about the coffee market: "Coffee for coffee's sake is still a novelty. The coffee market is still premature for serious growth."

Likewise, Mr Klauser at Nestlé warns that while the potential of the Chinese market may be beguiling, it is a long way from being realised. "Coffee drinking is still foreign to the Chinese, who are essentially tea drinkers and their habits are not so easily changed," he says.

In large part, coffee producers and cafe owners say, this is because Chinese people are not yet convinced by the taste. After a lifetime of tea, coffee seems bitter and acrid, which helps explain the popularity of the sweeter and milkier cups of coffee such as latte, cappuccino or instant coffee ready-mixed with milk and sugar.

But, then, for the time being, the modish Ms Yang suggests that people drink coffee often for something more than the taste: "Coffee has its own mood ... for example, if a young man invites a young lady for a cup of coffee, this is a good way for him to express his feelings."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1359-60	1385-6
[illegible]	[illegible]	[illegible]

ALUMINIUM ALLOY ($ per tonne) [illegible]

LEAD ($ per tonne) [illegible]

NICKEL ($ per tonne) [illegible]

TIN ($ per tonne) [illegible]

ZINC, special high grade ($ per tonne) [illegible]

COPPER, grade A ($ per tonne) [illegible]

LME AM Official £/$ rate: [illegible]

HIGH GRADE COPPER (COMEX) [illegible]

PRECIOUS METALS

LONDON BULLION MARKET [illegible]

Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open Int
May	299.4	+0.7	300.0	300.0	–	–
Jun	299.9	+0.8	301.5	298.1	17,098	83,962
Aug	302.3	+0.8	303.9	300.4	4,767	22,821
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PLATINUM NYMEX (50 Troy oz.; $/troy oz.) [illegible]

PALLADIUM NYMEX (100 Troy oz.; $/troy oz.) [illegible]

SILVER COMEX (5,000 Troy oz.; Cents/troy oz.) [illegible]

ENERGY

CRUDE OIL NYMEX (1,000 barrels, $/barrel) [illegible]

CRUDE OIL IPE ($/barrel) [illegible]

HEATING OIL NYMEX (42,000 US galls; c/US galls) [illegible]

GAS OIL IPE ($/tonne) [illegible]

NATURAL GAS IPE [illegible]

NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu) [illegible]

UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls) [illegible]

GRAINS AND OIL SEEDS

WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open Int
May	73.75	-0.75	74.00	73.65	47	108
Jul	74.65	-1.00	75.25	74.65	308	1,378
Sep	75.65	-1.10	–	–	–	165
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

WHEAT CBT (5,000bu min; cents/60lb bushel) [illegible]

MAIZE CBT (5,000 bu min; cents/56lb bushel) [illegible]

BARLEY LIFFE (100 tonnes; £ per tonne) [illegible]

SOYABEANS CBT (5,000bu min; cents/60lb bushel) [illegible]

SOYABEAN OIL CBT (60,000lbs; cents/lb) [illegible]

SOYABEAN MEAL CBT (100 tons; $/ton) [illegible]

POTATOES LIFFE (20 tonnes; £ per tonne) [illegible]

FREIGHT (BIFFEX) LIFFE ($10/index point) [illegible]

PULP AND PAPER

[illegible]

FUTURES DATA

All futures data supplied by CMS.

SOFTS

COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open Int
May	1117	+6	1109	1109	8	116
Jul	1133	+6	1134	1120	922	25,539
Sep	1150	+6	1153	1141	871	21,258
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

COCOA CSCE (10 tonnes; $/tonnes) [illegible]

COCOA (ICCO) (SDR's/tonne) [illegible]

COFFEE LIFFE (5 tonnes; $/tonne) [illegible]

COFFEE 'C' CSCE (37,500lbs; cents/lbs) [illegible]

COFFEE (ICO) (US cents/pound) [illegible]

WHITE SUGAR LIFFE (50 tonnes; $/tonne) [illegible]

SUGAR '11' CSCE (112,000lbs; cents/lbs) [illegible]

COTTON NYCE (50,000lbs; cents/lbs) [illegible]

ORANGE JUICE NYCE (15,000lbs; cents/lbs) [illegible]

VOLUME DATA

[illegible]

INDICES

[illegible]

LME WAREHOUSE STOCKS (tonnes) [illegible]

Nuts and seeds Prices from Kenkko London $ per m/t. Iranian pistachios 28/30 new (in shell) naturally opened (round); crop 1997 at $3,900 FCA or CFR from Iran. Turkish hazelnuts 13/15 and 11/13, for new crop indication $4,350 CFR. Long snow white pumpkin seeds recleaned at $2,500 FOB Europe. Very few goods available. Indian cashews crop 1997 and 1998 CFR from top shippers, W320 at $5,450, W240 at $6,200; market down due to fall in rupee. US almonds new crop estimate at 550m pounds; standard 5 per cent crop 1997 at $4,300 FAS, crop 1998 at $4,500. Market rising slowly. Argentine peanuts 38/42 at $800 CIF Europe for new crop.

MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open Int
Jun	66.125	+0.100	65.500	65.075	15,395	34,465
Aug	66.775	-0.035	67.225	66.700	7,843	28,365
Oct	67.475	–	67.725	67.400	2,330	16,361
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIVE HOGS CME (40,000lbs; cents/lbs) [illegible]

PORK BELLIES CME (40,000lbs; cents/lbs) [illegible]

LONDON TRADED OPTIONS

[illegible]

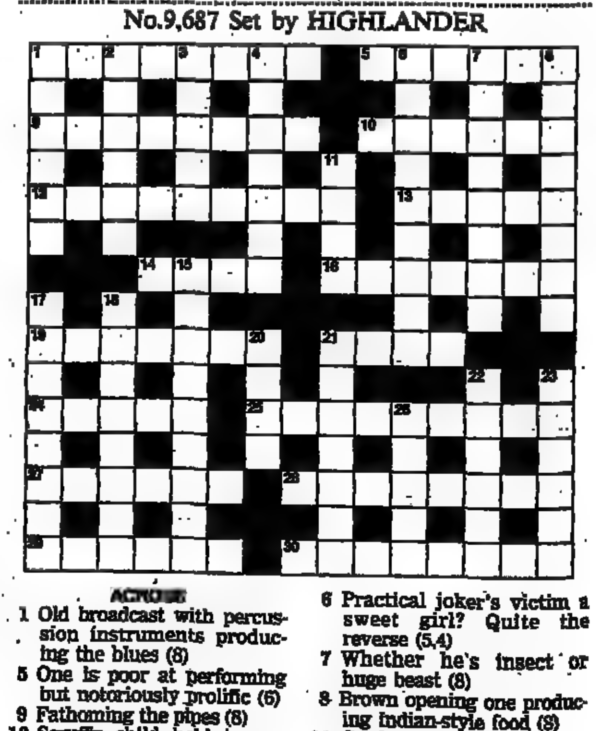
LONDON SPOT MARKETS

[illegible]

JOTTER PAD

CROSSWORD

No.9,687 Set by HIGHLANDER



ACROSS

1 Old broadcast with percussion instruments producing the blues (8)
5 One is poor at performing but notoriously prolific (6)
9 Fathoming the pipes (8)
10 Scruffy child held in our Chinese embassy (6)
12 Sobriquets for prison? (9)
13 Member getting old for this sort of dancing (5)
14 Second one to complain (4)
16 One who fires a tricky ball down the pitch (7)
19 Shown sat behind previous partner (7)
21 Dispose of sister's room, so to speak (4)
24 Simple English food in liquid form (5)
25 On top of plank from ship into sea (9)
27 Hebridean island leads bishop a dance (6)
28 Stop it: I'm turning into a sanguine person (8)
29 Youth leader is led astray but returns (6)
30 With tower being unduly high, went in front (8)

DOWN

1 A shrub, a Greek nymph and he shuffled round quietly (6)
2 Start to eat about one (6)
3 Rifle at home? Longbow's more likely for him (5)
4 Soldier gets cross with another soldier resident on the island (7)
6 Practical joker's victim a sweet girl? Quite the reverse (5,4)
7 Whether he's insect or huge beast (8)
8 Brown opening one producing Indian-style food (8)
11 Snakes take head off insects (4)
15 Where mollusc breeds (toy variety) (6,3)
17 He converted pantry for pre-nuptial gathering (3,5)
18 Opening half of preprandial drink – true? Wrong (8)
20 Gloomy state of mind lifted by this judgment (4)
21 Cook's vessel taken over by leading "wets" (7)
22 Type of tyre laid up by gunners (6)
23 It appears in original deed prepared for publication (6)
26 Fabric which reproduces sounds made by hounds (5)

Solution 9,686

TRAGIC BASSDRUM / BETIDE SILLABUB / STREAKER NOTION / OATH PLEASINGLY / FACIALHAIR WEEP / ARCTIC FIRESHIP / FINEGAEL IMPUTE / LIESOVER ONEDAY

هكذا من الاصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Bank Von Ernst & Cie AG

Frontrunner I (z)

Morgan Stanley Sicav - Contd.

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

Eurolife Assurance Group

Flemings International Ltd

[illegible]

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

[illegible]

OFFSHORE INSURANCES

[illegible]

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Premier Life				
1 Rue Emile Bian, Luxembourg				Tlx 2829 Tel 4059781
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Professional Investment Consultants				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Royal & Sun Alliance Intl Financial Services				
Royal Court, Athol St, Castletown IoM				01624 821212
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Royal Skandia Life Assurance Ltd (z)				01624 611611
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Arnhold and S. Bleichroeder, Inc				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asia Pacific Securities Corp Ltd				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian Convertibles & Income Fd (Cayman)				
NAV May 14	$11.23		—	—
Atlantico Investment Ltd				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Atlantic Investment Management, Inc				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Atlantic Fund Management (Guernsey) Ltd				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Atlas Management Limited				
Managed	$10.09	10.60	—	—
Atlas Real Estate Hedge Fund Limited				
NAV Apr 30	$110.4		—	—
Aurum Funds				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BEA Associates				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BMP				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Julius Baer Bank & Trust Co Ltd				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Baltic Fund				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Continued

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Continued

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
Murray Split Inc	♣†	58½	—	72½	57½	27.7	–	–
Cap		382½	—	398	219½	–	409.7	6.6
Zero Div Pref		211½	—	211¼	198½	–	–	–
Units		631¼	—	631½	538½	3.8	5069.1	-1.1
OLIM Convertible Tst	♣	67½	+2	67½	28½	16.7	86.0	21.5
Zero Pref		304½	+½	304½	245½	–	–	–
Package Units		805	—	805	655	4.2	833.1	3.4
Rights & Issues Inc	♣	295	—	300	220	5.8	–	–
Cap		1085	+10	1200	745	1.8	1307.8	17.0
St David's Inc	♣†	120	—	120	120	17.7	–	–
Cap		457	—	482	192½	–	–	–
Zero Prf		190	—	192¼	185½	–	–	–
Second Scottish Nat	♣M	128½	-¼	132½	98½	8.3	121.0	-3.9
Zero Div Prf		105½	-¼	106	98½	–	99.9	-5.6
2nd St David Inv Tst Inc		101	—	105	110½	11.7	–	–
Residual Cap		122½	+4	122½	10	–	124.6	1.7
Zero Div Prf		214½	—	215	193	–	–	–
SR Pan European		76½	—	77½	52½	1.2	81.0	5.6
Warrants		37½	—	37½	22½	–	–	–
Zero Div Pref		71½	—	71½	65½	–	–	–
Schroder Split Inc	♣	131	—	135	102½	8.4	–	–
Capital		81½	+1½	81½	25½	–	186.2	50.2
Zero Div Pref		158½	+¼	160	148½	–	–	–
Scot National Inc	♣†	105¼	—	106½	94	11.8	–	–
Cap		218	+1½	218	53	–	263.6	17.3
Warrants		14½	—	18½	0½	–	–	–
Stepped Pf	†	170	—	171	150½	5.8	–	–
Zero Div Pref		315½	+¼	315½	285	–	–	–
Tor Inc	♣	331½	—	352½	277½	10.6	–	–
Cap		2135	—	2225	1447½	0.2	2563.8	16.7
Venturi Geared	♣	43½	—	43½	24	–	54.1	19.6
Capital Indexed		555	—	560	395	–	–	–
Income		34½	+2½	38½	30½	18.8	–	–
Yeoman Income		70	—	79½	68½	20.5	–	–
Capital		608	+2	608	341½	–	660.2	8.2
Zero Pref		278½	—	280½	261½	–	–	–

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

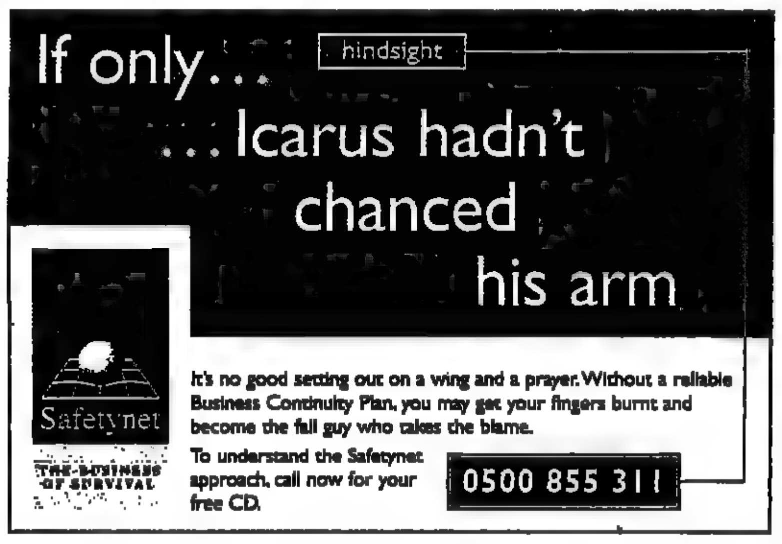
OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Continued

PROPERTY



PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		[illegible]	[illegible]	[illegible]	[illegible]	–	3.5	10.6
Barlow R	♦	[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]	14.0
Gold Flds Prop R		[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]	[illegible]
SA Breweries R		[illegible]	[illegible]	[illegible]	[illegible]	–	2.1	♦
Standard Bank R		[illegible]	[illegible]	[illegible]	[illegible]	–	[illegible]	–
Tiger Oats		[illegible]	-5	1180	[illegible]	–	2.0	18.2
Tongaat-Hulett R		749½	+3	789	583	–	2.3	16.2

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAKS		[illegible]		[illegible]	£472	–	–	–

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ‡‡ Rule 4.2(a) Irish incorporated with-listed companies.
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimate.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1998-99.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
, ex dividend;
, ex scrip issue;
, ex rights;
, ex all;
, ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion

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FT Company Focus / Focus Plus

Please note that FT Company Focus/Focus Plus reports ceased to be available as from May 4th 1998. However ShareFinder company reports, incorporating current and historic financial information, key performance data and consensus recommendations, may still be purchased by calling 0870 601 4600.

FT Cityline

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An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Fed decision helps Footsie back over 5,900

MARKET REPORT
By Steve Thompson, UK Stock Market Editor

Widespread relief that the US Federal Reserve's open market committee had decided to leave interest rates on hold, plus a much happier performance by Asian stock markets, provided a perfect background for UK stocks to extend Tuesday's rally.

And there was more good news for equities from a highly successful auction of £3bn-worth of 30-year gilts.

The auction was covered 2.26 times, and saw gilts make excellent progress, with the 30-year issue up 17 ticks towards the close of trading.

The FTSE 100 index raced up a further 29.6 to 5,907.4, extending its rise over the past two sessions to 81.2 or 1.4 per cent, while the FTSE 250 and FTSE SmallCap, the two junior indices, both hit new intra-day and closing records. The former closed above 5,800 for the first time, finishing 30.3 ahead at a record 5,825.5.

The FTSE SmallCap settled at a new intra-day and closing high of 2,774.3, a gain of 13.8 on the session.

Just about the only grouse from the ranks of market-makers manning the City's trading desks was a rather disappointing level of activity accompanying the strong gains in the FTSE 100 stocks. Turnover at 6pm was 963m shares. Non-FTSE 100 stocks accounted for 56 per cent of the total.

Dealers said the looming long bank holiday weekend would probably ensure that turnover levels fell away rapidly ahead of the three-day break. They also pointed out that many European markets are closed today for Ascension day, which will cut off the substantial supply of activity emanating from continental fund managers.

Footsie was up and running from the outset, gathering momentum throughout the morning and carrying on upwards after Wall Street opened on a firm note.

Earlier Wall Street's rather surprising sluggishness towards Tuesday's close had prompted some London dealers to preach caution. However, that wariness soon disappeared in the light of some well-received corporate reports and the continuing takeover speculation enveloping all sections of the UK market.

The news from Indonesia, which had contributed to the market's unhappiness in recent sessions, was much more positive, and helped the Jakarta index rally 2.5 per cent. Hong Kong rose 1 per cent and Tokyo nearly 1 per cent.

Bank shares, badly affected recently by interest rate concerns and the OFT investigation into Northern Rock's restructuring of some of its customers' accounts, built strongly on Tuesday's revival.

Helping the movement in the sector was a Bank of England report on the banking industry indicating that conditions for sector consolidation remain favourable and that several large banks with surplus capital may consider acquisitions this year.

Not all observers shared the market's bullishness. Richard Lake, technical analyst at Brewin Dolphin, the stockbroker, remained cautious about the FTSE 100: "In my opinion, a setback to the 5,500 to 5,700 is still quite possible in the short term," he said in his latest note.

FTSE All-Share Index

Source: FTSE International/Topic

Equity shares traded
Turnover by volume (million)

Indices and ratios

FTSE 100	5907.4	+29.6	FT 30	3867.7	+23.5
FTSE 250	5825.5	+30.3	FTSE Non-Fins p/e	23.56	23.28
FTSE 350	2871.6	+14.5	FTSE 100 Fut Jun	5925.0	+5.0
FTSE All-Share	2808.79	+14.17	10 yr Gilt yield	5.90	5.94
FTSE All-Share yield	2.79	2.80	Long gilt/equity yld ratio	2.13	2.14

Best performing sectors

1 Insurance .... +2.2
2 Support Services .... +2.0
3 Retailers General .... +1.3
4 Media .... +1.3
5 Diversified Inds .... +1.3

Worst performing sectors

1 Oil Integrated .... −0.6
2 Oil Exploration & Prod .... −0.5
3 Resources .... −0.4
4 Paper, Pckg & Printing .... −0.4
5 Telecommunications .... −0.3

Lloyds leads banks

COMPANIES REPORT
By Peter John and Martin Brice

Lloyds TSB led the banking sector higher as the market anticipated state approval of its link with TSB.

The shares have fallen sharply over the past couple of months because the steam has come out of the sector.

But clearance of the merger is now seen as a certainty for the end of July at the latest. And, once it is given, there are two possible boosts to the stock.

First, Lloyds is expected to cut costs by closing down operations wherever a TSB and Lloyds branch are nearby. Second, the bank will be free to make further acquisitions, possibly boosting its exposure to mortgage lending.

"Lloyds is the UK stock in the sector where good news-flow is most likely over the next six months," said Simon Price of Merrill Lynch.

Lloyds has said it is interested in growing by acquisition and valuations elsewhere have started to fall back to attractive levels, say brokers. Once it makes a move, it could free others such as the Halifax and Barclays from the worry of a contested bid.

Also, Morgan Stanley has been recommending the stock ahead of one-to-one meetings with analysts, which are expected to carry reports of increased lending.

The sector, always vulnerable to interest rate concerns, received general support from the US decision to leave rates unchanged. Finally, it was spurred by speculation that ABN Amro of the Netherlands was keen to buy Bear Stearns, the US investment bank.

Lloyds rose 27¼ to 891½p while Bank of Scotland jumped 28½ to 738½p and Abbey National 38 to £11.08. Nevertheless, a profits downgrade by Schroders pushed National Westminster down 19 to £11.12. The bank said it had bought back 2m shares at £11.20p a share.

Dixons was marked down severely in the immediate aftermath of the government statement that prohibited the use of recommended retail prices in the domestic electrical goods market.

Although the statement was seen by analysts as merely rubber-stamping recommendations made by the Monopolies and Mergers Commission in July, the stock dropped 11p in morning trading. However, it rapidly recovered the lost ground, to close a penny firmer at 580p.

Shell Transport eased 3¾ to 448¼p after it made cautious comments at a presentation to analysts in The Hague.

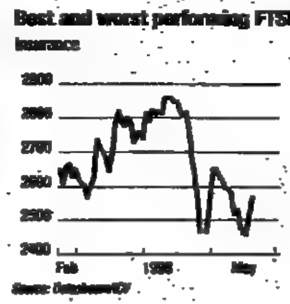
Analysts said the company had cut its 1998 return on capital target from 13 per cent to 12.5 per cent because of difficult trading. Targets for 2001 and 2002 stayed the same at 15 per cent. There was also talk that the company may review its capital employed, which stands at £100bn.

Also, the general oil environment continued weak with US crude prices dipping because of over-supply. BP fell 5½ to 930p.

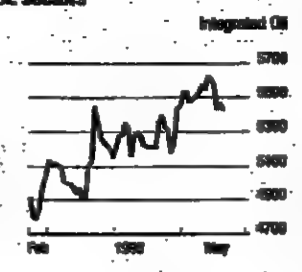
Rumours of positive results on oil exploration near the Falkland Islands helped Aim-traded Desire Petroleum to gain 96½ to 305½p. The rise was fuelled by a rumour that Amerada Hess has achieved "encouraging" results in a neighbouring area. The positive sentiment spread to Falkland Island Group, the retailing and port operations group, which rose 28 to 176½p.

Best and worst performing FTSE sectors

Insurance



Integrated Oil



Source: Datastream/ICV

Misys was up 220 to £35.70, ahead of its elevation today to the market's benchmark index, the FTSE 100, replacing the Energy Group, now absorbed into Texas Utilities of the US. In turn Misys' place in the FTSE 250 will be occupied from this morning by Cox Insurance. The latter's shares celebrated with a 55 surge to 493½p. Cox was only one of many insurers to make rapid progress yesterday. The leading composites made good progress in response to the overall market strength plus well-received first-quarter figures from Royal & Sun Alliance earlier in the week. The latter closed 15½ firmer at 669½p, while Commercial Union rose 18 to £11.05, General Accident 29 to £14.05 and Guardian Royal 11½ to 396½p.

FI Group firmer

Information technology stocks were prominent among the better FTSE 250 performers. FI Group was pushed up 145 to £15 amid talk of a series of agency crosses uncovering a shortage of the stock.

Fellow IT sub-sector constituent CMG continued to benefit from positive feedback stemming from an analysts' visit to the company on Friday, and the shares rose 137½ to £30.77½.

However, it was not all joy among IT stocks. Delphi was off 23½ at 730p after a trading statement focused on a trend in its US operations involving higher costs and lower revenues. Delphi said it was monitoring the performance of its US arms.

Newcomer Ambient Media Corporation, the Aim-traded marketing services and loyalty card company, opened at 90p and closed at a 2½p premium. It raised £6m via the float, and has a market capitalisation of £17.5m.

A profits warning from printed circuit board maker Prestwick Holdings came two minutes after the market closed.

The warning blamed "rapid and severe deterioration affecting the global electronics market and continued deferment of orders by major customers". The shares had risen a penny to 37p.

Next recovered 21 to 542p as Morgan Stanley responded to Tuesday's reassuring noises from the company with a reiterated "buy" recommendation.

The broker raised its current-year profit forecast by 5 per cent to £168m on renewed confidence about gross margins.

Carlton Communications climbed 23 to 517p after the company announced interim figures above the range of analysts' forecasts.

Profits rose from £153.6m a year ago to £165.7m even though the consensus was for a flat figure damped by start-up costs for digital television.

National Power improved 6½ to 571p as the generator announced full-year profits of £720m, near the top of an analysts' range that peaked at £737m.

British Biotech slipped a penny to 58p with Merrill Lynch issuing a cautious note on the stock. The broker said the company's circular to shareholders this week had more questions than it answered, particularly about the way clinical trials were conducted.

FT 30 INDEX

	May 20	May 19	May 18	May 15	May 14	Yr ago	*High	*Low
FT 30	3867.7	3844.2	3831.4	3894.6	3902.5	2987.5	3928.3	3643.7
Ord. div. yield	2.88	2.88	2.86	2.80	2.80	3.67	4.22	2.79
P/E ratio net	24.04	23.94	23.90	25.31	25.31	18.10	25.41	15.88
P/E ratio nil	23.83	23.72	23.69	25.06	25.08	17.02	25.30	15.71

FT 30 since compilation: high 3920.3 11/05/98, low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3844.2	3856.0	3866.3	3879.1	3879.7	3887.8	3891.9	3881.6	3882.5	3891.9	3843.7

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STOCK MARKET TRADING DATA

	May 20	May 19	May 18	May 15	May 14	Yr ago
SEAQ bargains	63,556	61,238	69,089	59,732	63,104	48,259
Equity turnover (£m)†	-	4030.6	2964.4	2846.7	3352.6	2485.1
Equity bargains†	-	52,622	52,715	49,575	49,921	40,440
Shares traded (m)†	-	781.8	835.4	746.9	778.7	659.0
Total market bargains‡	-	63,825	67,080	60,774	62,902	-
Total turnover (£m)‡	-	5080.7	4148.6	3839.3	4580.5	-
Total shrs traded (m)‡	963.0*	1027.0	1083.7	983.0	1024.4	-
Tradepoint turnover (£m)	32.9	25.2	27.9	18.2	35.8	1.6
Tradepoint shrs traded	7,421	8,612	7,779	6,189	8,048	526

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	940	Total Highs	272	Total contracts	36,560
Total Falls	586	Total Lows	38	Calls	18,025
Same	1,478			Puts	18,535

May 20 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5945.0	5925.0	+10.0	5968.0	5885.0	19909	157741
Sep	6007.0	6001.5	+11.0	6007.0	6006.0	2	11341
Dec	-	6084.0	+11.0	-	-	0	250

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

Jun	5890.0	5845.0	+31.0	5890.0	5845.0	73	6464

FTSE 100 INDEX OPTION (LIFFE) (*5900) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	May 20	Day's chge%	May 19	May 18	Year ago	Gross yld%	Net yld%
FTSE 100	5907.4	+0.5	5877.8	5926.2	4651.8	2.79	2.36
FTSE 250	5825.5	+0.5	5795.2	5792.5	4501.5	2.81	2.36
FTSE 250 ex IT	5846.0	+0.6	5853.0	5852.4	4515.2	2.88	2.43
FTSE 350	2871.6	+0.5	[illegible]	2836.7	2253.3	2.79	2.36
FTSE 350 ex IT	2874.5	+0.5	2850.9	2839.2	2253.2	[illegible]	2.39
FTSE 350 Higher Yield	2811.8	+0.3	2803.3	2782.8	2198.0	3.77	[illegible]
FTSE 350 Lower Yield	2941.9	+0.7	2922.3	2901.9	2373.8	2.08	1.72

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TRADING VOLUME

Major Stocks yesterday

[illegible]

FTSE INTERNATIONAL

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 20 / Sch)

BELGIUM/LUXEMBOURG (May 20 / Frs.)

CZECH REP (May 20 / Korun)

DENMARK (May 20 / Kr)

FINLAND (May 20 / Mkk)

FRANCE (May 20 / Frs.)

GERMANY (May 20 / Dm.)

GREECE (May 20 / Drachma)

ITALY (May 20 / Lira)

NETHERLANDS (May 20 / Fls.)

NORWAY (May 20 / Kroner)

POLAND (May 20 / Zloty)

PORTUGAL (May 20 / Escudo)

SPAIN (May 20 / Pta.)

SWEDEN (May 20 / Kronor)

SWITZERLAND (May 20 / Frs.)

TURKEY (May 20 / Tk Lira)

PACIFIC

JAPAN (May 20 / Yen)

AUSTRALIA (May 20 / Aus$)

HONG KONG (May 20 / H.K.$)

INDONESIA (May 20 / Rupiah)

MALAYSIA (May 20 / MYR)

NEW ZEALAND (May 20 / NZ $)

SINGAPORE (May 20 / S$)

SOUTH KOREA (May 20 / Won)

TAIWAN (May 20 / TW $)

THAILAND (May 20 / Baht)

AMERICAS

CANADA

TORONTO (May 20 / Can $)
4 pm close

MONTREAL (May 20 / Can $)
4 pm close

MEXICO (May 20 / Peso)
12:30 pm

AFRICA

SOUTH AFRICA (May 20 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY MAY 19 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY MAY 18 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	198.98	0.9	181.60	171.17	184.80	212.13	0.4	3.72	197.24	180.37	169.70	183.47	211.20	243.87	190.26	230.69
Austria (23)	243.78	1.1	222.49	209.71	226.16	226.04	0.8	1.45	241.17	220.54	207.49	224.33	224.22	243.78	181.80	190.11
Belgium (26)	342.73	1.6	312.80	294.83	317.96	311.02	1.1	2.33	337.79	308.86	290.61	314.19	307.71	342.73	234.33	247.17
Brazil (25)	226.12	1.1	206.37	194.52	209.78	478.03	1.2	2.13	223.61	204.48	192.38	208.00	472.15	322.44	184.94	254.97
Canada (120)	243.38	-0.1	222.13	209.37	225.79	255.51	-0.3	1.57	243.54	222.71	209.53	226.53	256.22	340.78	193.10	201.56
Denmark (34)	497.79	1.2	454.32	428.22	461.80	460.15	1.0	1.31	491.62	449.57	422.98	457.30	455.65	521.81	375.32	396.76
Finland (28)	433.70	1.4	395.83	373.09	402.36	493.64	1.1	1.65	427.62	391.04	367.91	397.77	488.03	451.12	267.45	267.68
France (79)	315.24	0.9	287.71	271.18	292.46	295.86	0.5	1.98	312.54	285.80	268.90	290.72	294.25	318.93	213.48	230.67
Germany (58)	289.21	1.1	263.96	248.79	268.31	268.31	0.8	1.23	286.11	261.64	246.16	266.14	266.14	290.93	204.88	211.81
Greece (37)	281.10	0.3	256.56	241.82	260.79	621.14	-0.1	1.49	280.14	256.17	241.02	260.58	621.53	298.79	264.86	–
Hong Kong, China (66)	284.45	-0.4	259.61	244.70	263.90	283.01	-0.4	5.82	285.56	261.13	245.68	265.62	284.11	500.03	262.93	499.45
Indonesia (27)	29.24	7.3	26.69	25.15	27.13	226.01	9.4	3.13	27.26	24.93	23.45	25.36	206.02	254.90	27.26	222.18
Ireland (16)	534.16	0.7	487.51	459.51	495.56	533.26	0.4	1.02	530.45	485.07	456.38	493.41	531.20	580.44	336.68	346.11
Italy (54)	164.56	3.6	150.19	141.56	152.67	216.21	3.3	1.30	158.83	145.24	136.65	147.74	208.28	177.15	88.93	90.61
Japan (480)	93.66	0.9	85.48	80.57	86.89	80.57	0.9	0.98	92.82	84.88	79.86	86.34	79.86	141.12	88.52	133.33
Malaysia (107)	156.09	-0.1	142.46	134.28	144.81	232.07	0.5	2.99	156.18	142.82	134.37	145.28	230.05	541.84	113.56	511.32
Mexico (29)	1523.86	-1.1	1390.79	1310.88	1413.74	14312.71	-0.4	1.70	1541.01	1409.73	1326.35	1433.97	14367.33	1801.98	1405.17	1412.71
Netherlands (19)	512.53	2.1	467.77	440.90	475.49	470.40	1.8	1.96	501.95	459.02	431.87	466.91	461.89	521.95	368.99	369.61
New Zealand (14)	67.95	-0.7	62.02	58.45	63.04	88.01	-0.4	4.80	68.46	62.60	58.90	63.68	88.28	98.47	67.95	87.35
Norway (38)	327.86	-0.7	299.23	282.04	304.17	334.06	-1.0	1.88	330.12	301.88	284.02	307.07	337.29	374.84	281.82	307.38
Philippines (22)	89.43	-2.0	81.62	76.93	82.97	174.83	-3.0	1.19	91.30	83.49	78.55	84.93	180.32	173.10	57.54	148.37
Portugal (18)	285.48	3.4	260.55	245.58	264.85	357.22	3.1	1.06	276.07	252.46	237.52	256.80	346.56	289.38	278.07	–
Singapore (42)	177.49	0.9	161.98	152.69	164.67	135.23	0.4	2.25	176.89	161.72	152.16	164.51	134.75	401.75	144.01	384.57
South Africa (43)	317.11	0.5	289.42	272.79	294.20	353.32	0.5	2.54	315.44	288.45	271.40	289.42	351.58	384.24	227.96	356.29
Spain (31)	378.40	1.8	345.36	325.52	351.06	434.80	1.5	1.76	371.67	340.06	319.95	345.91	428.17	386.60	236.28	245.14
Sweden (49)	592.54	1.3	540.80	509.73	549.72	681.66	0.9	1.72	585.14	535.06	503.43	544.28	675.70	612.15	439.98	448.01
Switzerland (30)	400.63	1.9	365.64	344.64	371.68	368.24	1.4	1.10	393.25	359.61	338.34	365.79	363.02	410.80	285.85	291.77
Thailand (39)	21.59	-2.3	19.70	18.57	20.03	33.07	-2.1	8.46	22.10	20.21	19.02	20.56	33.80	68.09	13.10	63.23
United Kingdom (208)	376.54	0.9	343.66	323.91	349.33	343.66	0.8	2.86	373.02	341.11	320.94	346.98	341.11	401.84	283.10	300.33
USA (635)	453.30	0.3	413.72	389.95	420.54	453.30	0.3	1.47	451.78	413.12	388.68	420.22	451.78	462.16	337.05	337.05
Americas (810)	410.03	0.3	374.23	352.73	380.40	340.57	0.3	1.40	408.73	373.77	351.66	380.18	345.48	418.95	308.36	308.36
Europe (748)	354.60	1.4	323.64	305.04	328.98	338.47	1.1	2.09	349.76	319.84	300.93	325.34	332.80	363.50	256.75	261.88
Eurobloc (352)	101.93	1.6	104.54	104.26	102.22	102.25	1.3	1.68	100.29	103.07	102.60	100.85	100.90	100.10	100.00	–
Nordic (149)	517.66	1.1	472.46	445.31	480.25	522.63	0.8	1.69	511.87	468.08	440.40	476.13	518.50	535.55	385.48	387.02
Pacific Basin (868)	101.56	0.8	92.69	87.36	94.22	87.94	0.7	1.70	100.80	92.18	86.73	93.77	87.31	158.99	95.32	150.72
Euro-Pacific (1617)	207.04	1.2	188.96	178.10	192.07	181.57	1.0	1.91	204.58	187.08	176.01	190.29	179.79	218.04	172.03	197.02
North America (755)	439.94	0.3	401.52	378.45	408.14	440.04	0.3	1.42	438.52	401.01	377.29	407.91	438.66	448.61	328.76	328.76
Europe Ex. UK (540)	331.72	1.6	302.75	285.36	307.75	322.64	1.3	1.58	326.49	298.56	280.90	303.70	318.56	336.89	230.16	235.04
Europe Ex. Eurobloc (396)	97.44	1.1	98.94	98.67	97.73	99.09	0.9	2.34	96.35	99.01	98.56	96.89	98.23	100.97	96.35	–
Europe Ex. UK Ex. Eurobloc (188)	100.82	1.5	103.41	103.13	101.11	100.82	1.1	1.32	99.32	102.06	101.60	99.87	99.71	100.67	98.32	–
Pacific Ex. Japan (389)	176.44	0.2	161.03	151.78	163.69	181.59	0.1	4.33	176.11	161.04	151.52	163.81	181.48	318.98	161.31	301.88
World Ex. Eurobloc (2118)	98.06	0.5	89.50	84.36	90.98	98.90	0.5	1.65	97.54	89.20	83.92	90.73	98.33	100.18	97.54	-
World Ex. US (1835)	210.78	1.1	192.38	181.33	195.55	188.83	0.9	1.90	208.48	190.64	179.37	193.92	187.12	220.16	175.30	209.13
World Ex. UK (2262)	280.63	0.7	256.13	241.41	260.35	257.31	0.6	1.51	278.72	254.88	239.80	259.28	255.78	287.02	234.24	238.15
World Ex. Japan (1990)	385.77	0.7	352.09	331.86	357.89	380.01	0.6	1.73	383.13	350.35	329.63	356.38	377.00	394.39	300.22	300.22
The World Index (2470)	288.79	0.7	263.57	248.43	267.92	265.14	0.6	1.65	286.75	262.22	246.71	266.73	263.51	296.57	241.30	243.47

Emerging markets: IFC investable indices

Dollar terms

May 19		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	[illegible]	[illegible]	[illegible]
Brazil	[illegible]	[illegible]	[illegible]
Chile	[illegible]	[illegible]	[illegible]
Colombia	[illegible]	[illegible]	[illegible]
Mexico	[illegible]	[illegible]	[illegible]
Peru	[illegible]	[illegible]	[illegible]
Venezuela	[illegible]	[illegible]	[illegible]
East Asia			
China	[illegible]	[illegible]	[illegible]
Korea	[illegible]	[illegible]	[illegible]
Philippines	[illegible]	[illegible]	[illegible]
Taiwan, China	[illegible]	[illegible]	[illegible]
South Asia			
India	[illegible]	[illegible]	[illegible]
Indonesia	[illegible]	[illegible]	[illegible]
Malaysia	[illegible]	[illegible]	[illegible]
Pakistan	[illegible]	[illegible]	[illegible]
Sri Lanka	[illegible]	[illegible]	[illegible]
Thailand	[illegible]	[illegible]	[illegible]
Europe/Mideast/Africa			
Czech Rep	[illegible]	[illegible]	[illegible]
Egypt	[illegible]	[illegible]	[illegible]
Greece	[illegible]	[illegible]	[illegible]
Hungary	[illegible]	[illegible]	[illegible]
Israel	[illegible]	[illegible]	[illegible]
Jordan	[illegible]	[illegible]	[illegible]
Morocco	[illegible]	[illegible]	[illegible]
Poland	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]
Russia	[illegible]	[illegible]	[illegible]
S Africa	[illegible]	[illegible]	[illegible]
Slovakia	[illegible]	[illegible]	[illegible]
Turkey	[illegible]	[illegible]	[illegible]
Zimbabwe	[illegible]	[illegible]	[illegible]
Regional			
Composite	[illegible]	[illegible]	[illegible]
Latin America	[illegible]	[illegible]	[illegible]
Asia	[illegible]	[illegible]	[illegible]
EMEA	[illegible]	[illegible]	[illegible]
Europe	[illegible]	[illegible]	[illegible]
E. Europe	[illegible]	[illegible]	[illegible]
ME & Africa	[illegible]	[illegible]	[illegible]

Latest indices were unavailable for this edition.

4 pm close May 20

NEW YORK STOCK EXCHANGE PRICES

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial. d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. § Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	May 19	May 18	May 15	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9054.65	9050.91	9096.00	9211.84 (13/5)	7580.42 (9/1)	9211.84 (13/5/98)	41.22 (8/7/32)
Home Bonds	104.76	104.89	104.70	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3359.78	3387.21	3424.73	3686.02 (16/4)	3184.39 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	278.60	279.43	278.82	291.18 (2/4)	262.86 (9/1)	291.18 (2/4/98)	16.53 (8/7/32)

DJ Ind. Day's high 9184.51 (9171.23) Low 8997.26 (8972.20) (Theoretical) Day's high 9113.44 (9128.88) Low 9008.21 (8990.65) (Actual)

Standard and Poors	May 19	May 18	May 15	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1109.52	1105.82	1108.73	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials‡	1298.10	1291.70	1294.86	1311.48 (22/4)	1077.40 (9/1)	1311.48 (22/4/98)	3.52 (30/6/32)
Financial‡	133.78	133.11	133.80	140.83 (14/4)	110.85 (9/1)	140.83 (14/4/98)	7.13 (4/9/74)
Others							
NYSE Comp.	573.92	572.08	574.40	585.82 (22/4)	487.47 (9/1)	585.82 (22/4/98)	4.64 (25/4/42)
Amex Comp.	732.89	732.36	737.08	753.87 (22/4)	646.41 (12/1)	753.87 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	1845.87	1831.82	1848.77	1917.81 (22/4)	1503.22 (9/1)	1917.81 (22/4/98)	54.87 (3/10/74)
Russell 2000	470.86	467.61	472.44	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.35 (7/12/95)

■ RATIOS

	May 15	May 8	May 1	Year ago
Dow Jones Ind. Div. Yield	1.56	1.58	1.54	1.71

	May 13	May 6	Apr 29	Year ago
S & P Ind. Div. yield	1.30	1.33	1.35	1.72
S & P Ind. P/E ratio	31.08	30.86	30.29	23.33

US DATA

■ MARKET ACTIVITY

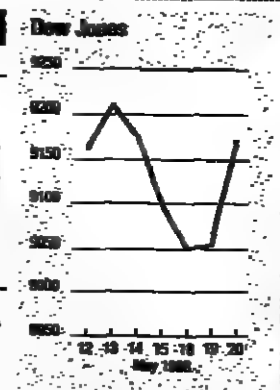
■ NYSE TRADING ACTIVITY

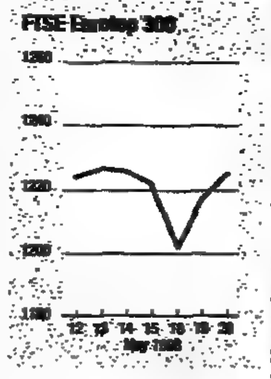
■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
DellComp	28,248,100	[illegible]	[illegible]
Micsft	13,052,000	[illegible]	[illegible]
CiscoSys	11,457,400	[illegible]	[illegible]
WrldCm	10,102,600	[illegible]	[illegible]
Intel	9,179,000	[illegible]	[illegible]
VlsngOtl	8,900,100	[illegible]	[illegible]
Novell	7,137,000	[illegible]	[illegible]
MCI Cm	5,802,100	52	[illegible]
AscendCom	5,045,500	[illegible]	[illegible]
Oracle	4,578,600	[illegible]	[illegible]

■ NASDAQ TRADING ACTIVITY

■ BIGGEST MOVERS





JAPAN

GERMANY

FRANCE

UK

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	1115.40	1117.80	+2.20	1122.00	1113.10	89,890	336,641
Sep	1134.00	1129.80	+2.20	1134.00	1129.70	3,584	22,360

■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	15640.0	15590.0	-70.0	15750.0	15540.0	23,142	201,339
Sep	15640.0	15610.0	-40.0	15720.0	15590.0	219	13,660

Open interest figures for previous day.

■ CAC-40	Open	Sett.Price	Change	High	Low	Est. vol.	Open int.
May	4028.0	4025.8	+48.8	4028.0	4014.0	824	35,928
Jun	4067.0	4064.5	+47.5	4067.0	4001.5	11	22,300

■ DAX	Open	Sett.Price	Change	High	Low	Est. vol.	Open int.
Jun	5431.0	5517.5	+72.5	5530.0	5423.5	22,984	124,350
Sep	5495.0	5585.5	+71.50	5581.5	5495.0	465	17,775

■ FTSE 100	Open	Sett.Price	Change	High	Low	Est. vol.	Open int.
Jun	7495.0	7482.0	+7.1	7513.0	7451.1	1,648	[illegible]
Jul	7493.0	7485.0	+91.3	7502.0	7493.0	5	2,895

■ [illegible]	Open	Sett.Price	Change	High	Low	Est. vol.	Open int.
May	765.25	768.50	+6.50	770.50	765.25	18,190	40,456
Jun	[illegible]	773.00	+7.25	774.00	769.00	15,752	113,108

WORLD MARKETS AT A GLANCE

Country	Index	May 20	May 19	May 18	1998 High	1998 Low	Yield	P/E
Argentina	General	21371.45	21499.43	21574.67	23466.47 23/3	18837.40 2/1	3.0	18.5
Australia	All Ordinaries	2723.2	2742.0	2733.3	2881.40 16/4	[illegible] 12/1	3.3	19.8
	All Mining	629.8	640.3	644.2	713.10 23/4	[illegible] 13/1		
Austria	Credit Aktien	(c)	575.41	572.08	575.41 19/5	437.44 13/1	4.2	28.6
Hungary	Bux	7395.56	7811.36	[illegible]	[illegible] 23/4	7288.79 13/1	na	na
India	BSE Sens.	3926.98	3824.42	3905.49	[illegible] 21/4	3308.55 26/1	na	na
	Crisil 500	764.19	751.82	745.85	815.62 21/4	594.38 29/1		
Indonesia	Jakarta Comp.	424.01	413.82	[illegible]	554.18 2/2	342.92 9/1	2.4	13.9
Portugal	BVL 30	5798.73	5712.13	5663.75	6176.89 22/4	3878.27 2/1	1.3	13.4
	PSI 20	13308.54	13069.99	12733.67	14290.89 22/4	9931.84 2/1		
Russia	RTS	233.15	226.38	227.81	411.81 5/1	227.81 18/5	na	na
Singapore	SES All-S'pore	345.33	345.47	344.78	437.98 19/3	324.82 12/1	1.8	22.4

THE NASDAQ STOCK MARKET

THE NASDAQ STOCK MARKET

AMEX PRICES

EASDAQ

STOCK MARKETS

US rate decision leaves bourses buoyant

WORLD OVERVIEW

Relief that the US Federal Reserve chose not to raise interest rates allowed stock markets to approach a holiday-packed weekend in fairly buoyant mood, *writes Philip Coggan.*

Many European markets will be closed today for Ascension day, while the UK and US have public holidays on Monday.

The Fed's decision on rates may not have been unexpected but there had been some nervousness in recent days as the markets awaited the news from Washington.

Figures released yesterday, showing a wider-than-expected US trade deficit, should act to depress the rate of US economic growth – and make a rate rise after subsequent meetings less likely. That helped the US stock market open higher.

*Meanwhile, the apparent easing of the Indonesian cri*sis, as the army took control of the streets of Jakarta and a demonstration was called off, brought some calm to Asian markets. Tokyo and Hong Kong edged ahead.

European markets took advantage of the improved international background to forge ahead, with the Dax in Frankfurt passing 5,500 for the first time. The Paris and Brussels bourses also reached record highs.

Nevertheless, eager bears could still find some reasons for caution. Japan recorded a sharp increase in its trade surplus (up 53 per cent year-on-year), thanks to a near 14 per cent decrease in imports, reflecting the weakness of domestic demand.

"Japan's economy is rapidly subsiding into a recession that could easily turn into depression," said Robin Aspinall of National Australia Bank.

In Russia, miners cut the *country in two, by blocking* the east-west rail link, in pursuit of their demands for back pay. The Russian stock market, which rebounded on Tuesday after the government raised interest rates to defend the rouble, slipped another 1.5 per cent.

And technical analyst Nick Glydon of Flemings points to a fall in the Dow Jones Transportation Average, which seems to have broken its uptrend. This matters to proponents of *"Dow theory", developed by* Charles Dow, the founder of the Wall Street Journal. According to the theory, rises in the Dow Jones Industrial Average need to be "confirmed" by a rise in the railroad (now transportation) average and, according to later adherents, the utilities average.

"Tuesday's fall by the transports breaks the pattern of bull market confirmations and will worry some very influential US investors *and commentators," says Mr* Glydon.

US equities slip back after gains

AMERICAS

US shares pared early gains to present a more mixed trading picture by midday, *writes John Labate in New York.*

The Dow Jones Industrial Average rose more than 50 points early in the session as a rally in bonds set in. But by early afternoon the mood had cooled, with the Dow up 21.92 at 9,076.57. The broader Standard & Poor's 500 index was up less than a point at 1,109.86.

Helping to give a boost to morning stock prices was a spate of hedge fund buying in the US Treasury market. New figures put the US trade deficit at $13bn for March. This helped convince investors that GDP estimates would come down, potentially heading off any Federal Reserve rise in interest rates later in the year.

Bond prices remained firm into the afternoon session. The benchmark long bond was ⅜ higher at 103⅛, pushing the yield down to 5.887 per cent.

But one day after Dell Computer reported better-than-expected earnings, a wave of selling took hold among computer producers and semiconductor shares.

The sell-off put pressure on the Nasdaq composite, which lost 15.09 to 1,830.78. The sell-off of technology stocks was widespread. After recent sharp rises Dell Computer was down $2¹¹⁄₁₆ to $92¾, while Gateway 2000 fell $2⅜ to $47¼.

Semiconductor stocks were hit by a warning by Analog Devices ahead of upcoming results. The shares tumbled 18 per cent or $6¼ to $27½. Advanced Micro Devices also fell back, losing 7.3 per cent at $20¾. Chip sector leader Intel lost $2¾ to $77⅛.

News that Bank of New York had withdrawn its bid for Mellon Bank had only a mild effect on prices.

Mellon was down $1⅛ to $68¾ after PaineWebber lowered its rating on the bank. Bank of New York rose $1½ to $61¾. NationsBank rose $⅜ to $76¾.

Lucent Technologies gained $⅞ to $72⅜ after it said it would be provider of networking equipment for a significant undersea cable project.

Among Dow components, AT&T climbed $1⅛ to $57¾ as the company conducted its annual shareholder meeting.

TORONTO moved higher in early trading helped by a flurry of activity in telecoms shares following news of a sector deal. Resource stocks remained dull, but at noon the 300 composite index was up 15.92 at 7,678.30.

A C$1bn disposal by Rogers Communications sent the shares up C$1.70 to C$11.20 in heavy two-way trading volume. Northern Telecom jumped C$2.65 to C$96.65 and Videotron C$1 to C$17.25.

Bid target Inmet Mining rose 70 cents to C$5.10, 10 cents above the offer made late on Tuesday by Zemex, which Inmet has denounced as inadequate. Seagram continued to suffer from profit-taking, slipping a further 65 cents to C$59.35.

São Paulo falls steeply

SAO PAULO was hit by interest rate worries with the market falling steeply ahead of the latest meeting of the central bank's monetary policy committee.

Blue chips streamed lower with Eletrobrás tumbling 4.6 per cent to R$39.50 and Petrobrás giving up 2.7 per cent at R$234.

Telebrás, which remains on course for a privatisation flotation in July, lost 1.7 per cent at R$125.30.

At midsession the Bovespa index was looking distinctly groggy, sliding 227 or 2.2 per cent at 10,116.

MEXICO CITY made early gains, boosted by upbeat economic data, notably 6.6 per cent growth for first quarter output.

By mid-session, however, sellers were in complete command and the IPC index was off 73.38 or 1.6 per cent at 4,551.07.

Bank shares made modest upward progress after two days of heavy losses for the sector. Bancomer improved 11 centavos to 4.62 pesos.

French shares hit fresh high

EUROPE

French equities hit a record high with the PARIS market ending at its best of the session, the CAC 40 index 67.08 higher at 4,047.92.

LVMH racked up one of the day's top performances, gaining FFr57 or 4.5 per cent to FFr1,323 as investors latched on to a number of positive threads.

Brokers said worries about Asia – where LVMH has a large customer base – were subsiding and they pointed out that the luxury goods group was due to make its first presentation in the US tomorrow. Finally, a largish line of stock was said to have successfully passed through the market.

France Telecom continued to push higher adding FFr10.00 at FFr345 for a two-day gain of 8 per cent following a US press report suggesting that Sprint PCS, in which France Telecom has a 20 per cent stake, could shortly be floated.

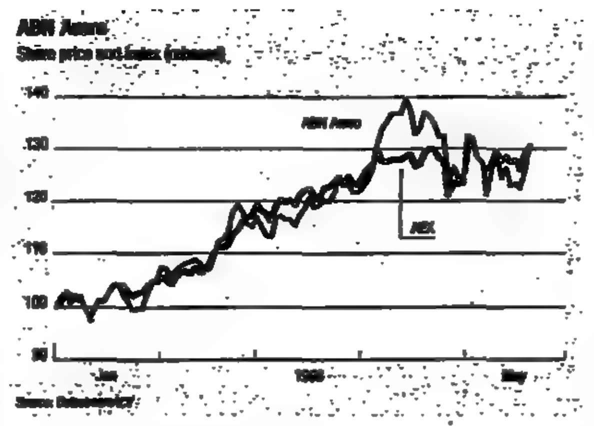
Brokers estimated that Sprint PCS could have a stock market value of $9bn, compared with the equivalent of $68bn for France Telecom.

Positive news continued to flow from annual meetings. Hopes for a share buyback and strong profits sent Danone up FFr53 to FFr1,578 and Dexia gained FFr15 to FFr777 after an equally upbeat meeting statement.

Among smaller caps, Eurotunnel had another strong day in the aftermath of a bullish report from a small stockholders association. The shares rose 50 centimes to FFr6.20 for a two-day advance of 11 per cent.

FRANKFURT pressed further ahead into record territory and the Xetra Dax index pushed up 73.51 through the psychological 5,500 barrier to close at 5,514.51. Analysts said high liquidity, hopes that Asian markets were settling and the early performance of Wall Street supported the market.

BMW was the star performer among the motor



stocks, rising DM128.07 or 7.6 per cent to DM1,818 as the one for five scrip issue took effect. One analyst said there was no news to account for the rise. However, bonus issues often had the effect of drawing investors' attention to a share that suddenly appears to look cheap. VW put on DM27.50 to DM1,475.

Mannesmann, the diversified industrial group, rose DM24 to DM1,620 as it posted higher first-quarter sales.

Viag climbed DM31.90 to DM998 in further response to Tuesday's announcement that its Viag Intercom arm would break even in 2001.

Deutsche Bank was another gainer, up DM2.55 to DM159.85 in electronic trading, as the bank told shareholders that April saw a continuation of the first quarter's good results.

AMSTERDAM climbed to within nine points of a record high, ending with the AEX up 16.80 at 1,194.20 thanks partly to a strong speculative run for ABN Amro, which jumped 3.6 per cent.

The shares rose Fl 1.80 to Fl 51.60 on press reports that the banking giant was set to reveal a bid for Bear Stearns, the US securities house. ABN denied the story, describing the report as "nonsense", but with 11.3m shares changing hands, it made for a fun session.

The perceived improvement to the business outlook across Asia sent Heineken smartly ahead, lifting the shares Fl 3.20 to Fl 75.20.

KLM shot up to Fl 82.00 on the back of strong earnings and share buyback news, but finally settled at Fl 79.70, off 20 cents.

Ahold, up 5.7 per cent on Tuesday following a $2.7bn US takeover bid, came off 40 cents to Fl 66.10 as investors opted to take profits.

ZURICH edged higher, but in very thin trade during the half-day session as investors consolidated their positions ahead of today's holiday. The SMI index closed 12.60 higher at 7,495.80.

Speculative buying was said to be behind a SFr86 rise in chemicals group Clariant to SFr1,874 and a SFr123 surge in insurer Baloise to SFr3,495.

Among pharmaceuticals, Novartis picked up SFr17 to SFr2,447, while Roche certificates ran into profit-taking, falling SFr75 to SFr14,917.

SAir Group, up SFr12 at SFr2,046, was among the more actively traded issues on comments by Jeffrey Katz, the group's chief executive, that he was confident that the first of the airline's planned Asian alliance agreements would be signed within weeks.

Alusuisse fell SFr5 to SFr1,965 on speculation that BZ Bank chairman Martin Ebner could force disposals or a partial merger after increasing his stake last week.

A deal between Lonza, Alusuisse's fine chemicals segment, and Ems-Chemie is seen as a possibility. Ems lost SFr85 to SFr8,715.

MILAN failed to hold on to its opening gains as political problems returned to spook the market. The real-time Mibtel index finished 50 weaker at 23,780.

Analysts said some investors were unnerved by news that Giovanni Maria Flick, the justice minister, had offered his resignation, having been under fire in recent days after a Mafia boss and one of Italy's most notorious criminals fled before they were due to be rearrested after appeal trials.

However, Romani Prodi, prime minister, refused to accept the minister's resignation.

Written and edited by Michael Morgan, Jeffrey Brown and Peter Hall.

Weaker rand dents shares

SOUTH AFRICA

A softening rand and an official upward nudge for interest rates pushed shares in Johannesburg lower and sent the all-share index down 0.4 per cent to 8,085.5.

The central bank edged up its repo rate in the face of foreign exchange weakness for the rand and shares fell across the board.

Industrials lost 0.3 per cent to 9,839.3 and financials came off 0.5 to 13,814.6.

Golds dipped 0.5 per cent to 1,018.4.

EMERGING MARKET FOCUS

Baht holds key to Bangkok

The share price volatility of *Thailand's finance companies* – a two-day 24 per cent drop before a 13 per cent rebound yesterday – in the wake of the government takeover of seven troubled financial institutions has investors looking elsewhere in the Thai stock market.

The fear is that more finance companies will be unable to raise capital by the time central bank-imposed deadlines fall due. Chatumongkol Sonakul, new central bank governor says there will be no more takeovers "in the next couple of months", but Tanya Sirivedhin, his chief deputy, says only five to 10 of the remaining 26 finance companies will eventually be successful in raising capital.

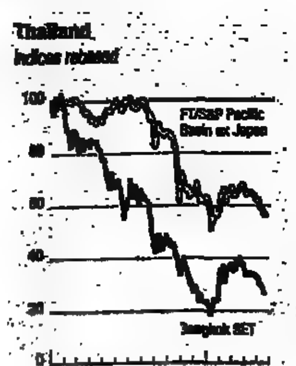
Those that survive face severe non-performing loan problems and stiff competition in financial services markets more and more dominated by big banks – foreign and domestic.

However, this is a sideshow to the real issues facing the Thai market. These issues, now that the market has declined 13.7 per cent this month and 36 per cent since its highs earlier this year, can be summed up in one word: baht.

In spite of the baht having been relatively stable at just under Bt40 to the US dollar for the past few months, many economists believe it is due to slip closer to Bt50 to the dollar.

There are technical reasons for this predicted weakness: many hedge funds have been buyers of baht as they settle positions they took with the central bank during its baht defence. Those positions, and the artificial demand for baht they generate, are now almost extinguished.

Foreign banks have also been bringing in dollars to lend baht to the central bank's financial institution rescue fund. When the liabilities of that fund are restruc-



tured, some of those arbitrage funds are expected to flow out of the country.

Others say currency weakness may result from Thailand's next agreement with the International Monetary Fund, to be released next week, should the agreement relax the tight monetary policy that is strangling the private sector.

For a foreign equity investor, the reasons matter little but the outcome is crucial. "Even if the market has bottomed out there is no reason to invest until the currency falls – and that's what I think is going to happen. I'll just wait," said one US fund manager.

Even brokers with a positive or overweight position on Thailand, such as Indosuez WI Carr, see the baht weakening.

One way around this quandary, suggests WI Carr, is to invest in exporters, who generally benefit when the baht weakens. But Dresdner Kleinwort Benson warns that many exporters are small-cap stocks, with a share trading volume to market capitalisation ratios of less than 1 per cent.

This is a far cry from the kind of stock market liquidity the bigger investment funds, once huge investors in Thai finance companies, are happy with.

Ted Bardacke

Tokyo rises as tensions ease

ASIA PACIFIC

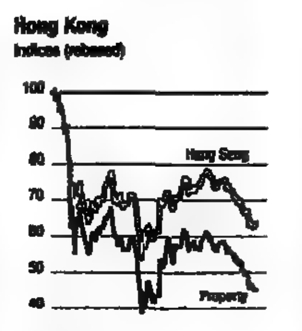
With regional alarms continuing to subside, TOKYO closed above 15,500 for the first time since May 1, *writes Gillian Tett in Tokyo.*

The Nikkei 225 Average rose 101.30 or 0.7 per cent to 15,652.95, after moving between 15,573.87 and 15,788.01. The Topix index of all first section shares, gained 5.76 to 1,225.62. The Osaka exchange rose to 16,460.09, up 119.89.

Turnover on the TSE was an estimated 430m, up from Tuesday's 330m, but broadly in line with recent volumes. The day's advance followed Tuesday's modest improvement, which was triggered after Indonesia's President Suharto said he would not stand for the presidency after parliamentary elections in the near future.

However, it also reflected new investor interest in a wave of share buybacks that have recently been announced by companies, such as Toyota and Tomen.

Nevertheless, traders warned that investors were now sifting through different sectors carefully, not least because companies were now releasing their results. Advancing issues outpaced decliners 792 to 343. By sec-



tor, gainers were led by fisheries, sea transport, air transport, iron and steel, and textiles. Losers were led by communications, railway and bus and retailers.

The cautious optimism about Indonesia helped boost the price of banking and trading house shares. These had declined sharply in recent days.

Among trading companies, Marubeni climbed Y8 to Y298, and Itochu Y9 to Y321. The rise occurred before the trading houses announced earnings results for the year.

In banks, Sakura Bank rose Y7 to Y444, Bank of Tokyo-Mitsubishi Y11 to Y1,541, and Sumitomo Bank Y30 to Y1,349. Tomen climbed Y16 to Y124 after announcing a share buyback plan.

The volume leader was Nippon Steel, up Y10 to Y233, following Tuesday's news that Pohang Iron and Steel of South Korea was talking with the Japanese steelmaker for an equity tie-up plan.

Obayashi was the highest percentage loser, falling Y46 or 8.1 per cent to Y519 after Tuesday's warning of a smaller parent current profit for the 1998 fiscal year.

HONG KONG reversed early losses to close higher as tensions in Indonesia eased. Investors covered short positions and lower interbank rates offered additional support. The Hang Seng index picked up from a low of 9,264.30 to close 100.07 higher on the day at 9,549.18.

Property counters underperformed, after recent price cuts by developers, many of which were said to be trading at almost 40 per cent discount to their net asset value. But Sun Hung Kai Properties, which said on Tuesday that it had slashed prices on its remaining units at one development, picked up 20 cents to HK$10.65. Cheung Kong was flat at HK$43.

Turnover picked up to a healthy HK$7.9bn against Tuesday's HK$6.6bn.

JAKARTA ended 10.18 higher at 424.00 on the composite index for a two-day rally of 8.9 per cent as political tensions eased. However, volume was nominal, with the central bank suspending clearing operations. Roadblocks were said to have led to poor attendance. Turnover was Rp10bn.

KUALA LUMPUR continued to rally as the better tone across Asia sparked modest buying. Volume was weak at 147m shares but gainers swamped losers by almost four to one. The composite index closed 14.77 higher at 569.19.

SEOUL gained 6.64 to 369.17 on the composite index in improving volume, with 79.1m shares changing hands, against 63.9m on Tuesday. Hyundai Motor rose Won200 to Won17,400 after announcing plans for substantial lay-offs.

KARACHI remained under pressure as rumours of a border clash with India added to investors' concerns. The KSE-100 index lost 56.46 or 4.3 per cent to 1,249.60, up from a low of 1,212.56. Fears that Pakistan would conduct a nuclear test, triggering sanctions by world powers, and the government's row with private power producers over tariffs remained preoccupations.

EAST MIDLANDS
Industries pounded by strong sterling
Pages 1-3

CITY CENTRES
Edinburgh, Glasgow, London, Newcastle, Norwich
Page 4

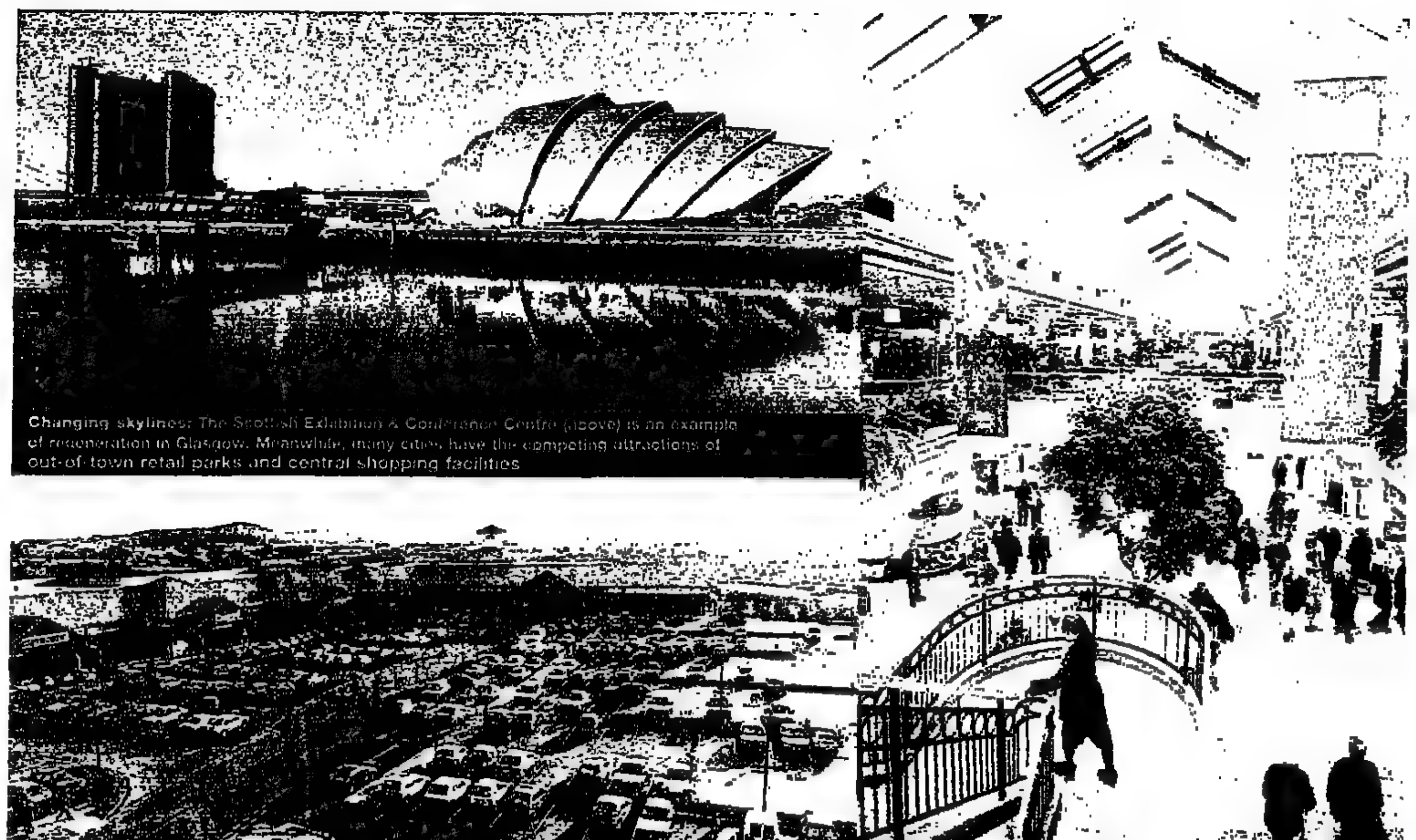
REPORTING BRITAIN

CALL CENTRES
Keeping staff is a big problem
Page 5

SOUTH-EAST ENGLAND
The region finds its voice
Page 6

Alan Pike reports on some of the issues European environment ministers will have on their review agenda when they meet in Glasgow next month

Cities, towns strive to preserve centres



Changing skylines: The Scottish Exhibition & Conference Centre (above) is an example of regeneration in Glasgow. Meanwhile, many cities have the competing attractions of out-of-town retail parks and central shopping facilities

Town and city centres are striving to defeat challenges to their future viability from out-of-town retail parks, multiple urban problems and a public fashion for mock rural styles of living.

The difficulties they face should not be underestimated. But neither should the hesitant yet strengthening confidence in urban areas that predictions of town centres collapsing into irreversible decline and eventual redundancy will prove less far-sighted than far-fetched.

EU environment ministers will next month discuss issues facing town centres as part of a wider review of regeneration, regional and planning policies. They will meet in Glasgow – a city that has, through the promotion of the arts, the introduction of street wardens and a range of physical improvements shown how city centre developments can be used as an important tool of regeneration policy.

A UK government drive to increase the proportion of new homes built on brownfield sites has this year given fresh urgency to the search for ways of successfully maintaining and improving town centres. But several other factors are focusing growing attention on the issue.

The proportion of single-person households in the population is increasing and enlarging the pool of potential urban dwellers at a time when disused town centre office and industrial space, schools, churches and other central locations are making interesting and unusual properties available for conversion to residential use.

Next year's establishment of English regional development agencies coincides with growing interest in evidence that suggests the economic success of entire regions in the next century will be tied up with the performance and image of their leading cities. And the challenge from purpose-built, out-of-town retail parks is forcing conventional town and city centres to thoroughly re-appraise their purpose, usually for the first time.

"Town centres that have evolved around a mixture of activities over long periods cannot expect to be able to compete head-on with out-of-town shopping centres that are designed for a single purpose," says Alan Tallentire, chief executive of the Association of Town Centre Management.

"The secret of continuing success for a traditional town centre is to identify its own, individual strengths and distinctive features, and promote these as part of an overall programme to benefit the town as a whole."

The UK now has around 240 managed towns, most with full-time managers. In a new good practice guide the association emphasises the range of factors that must be addressed by local authorities, retailers and town centre managers as they seek to make the best of their towns: street cleaning and repairs, marketing, the staging of festivals and other events, lighting and paving, crime, shopfront design, car parking and pedestrianisation are only a selection of the topics covered.

Specific examples in the guide range from the sophisticated – in Romford, a CCTV and radio system linking retailers with police patrols reduced reported pre-Christmas pick-pocketing offences by 76 per cent last year – to the novel, such as Solihull's street cleansing team working with a small company to develop a pressurised steam machine to remove chewing gum.

Many town centres are now managed as public-private partnerships. But it is sometimes easier to reach agreement on good ideas for improvements than to decide how to pay for them. In the US, all property owners within Business Improvement Districts (Bids) are legally obliged to pay levies to finance environmental and similar schemes if a majority votes in favour.

A UK government green paper (discussion document) on local authority finance this spring opened the possibility of the introduction of Bids being considered in the UK once a forthcoming reform of the business rate system has been completed – an experiment at running a Bid on contributions from volunteer participants has just been launched in Fitzrovia, part of London's West End.

Mr Tallentire's association is at present researching the likely effectiveness of various ways of bringing the UK public and private sectors more closely together to support town centres. While he believes there is no doubt that Bids have proved highly successful in the US, Mr Tallentire questions whether they could be replicated in their exact form in the UK. "Town centres need the private sector to give its expertise, not just its money," he says. "If companies regarded Bids as merely another form of taxation they would not dedicate time and effort to the task of making the best of our town centres. We have to show the private sector that there are business benefits for them in becoming involved."

To succeed, the sought-after renaissance of town centres requires balancing many sometimes conflicting priorities – between, for example, public and private sectors, pedestrians and motorists – and policies aimed at achieving both an increase in town centre res

Continued on Page 6

EAST MIDLANDS

Strong desire for an identity

The region's business has a determination to climb the pecking order in Europe as well as the UK, writes **Richard Wolffe**

When the government launched its plans for regional development agencies (RDAs) last year, few observers could have guessed that the East Midlands would seize the idea with enthusiasm. Torn by deep-rooted rivalry between its leading counties and cities, some political leaders privately described the East Midlands as "the bits that were left behind" when other regions were carved up.

However, a broad consensus of business groups, local authorities and other bodies signed up to one of the strongest proposals for an RDA in the country. The region may lack identity, but it does not lack the desire to create one for itself.

The paradox of the region was recognised two years ago by Nottingham city council. It calculated the East Midlands was missing out on millions of pounds of government grants and European funding because of a lack of identity and, ultimately, lobbying power. However, the identity problem was not necessarily a bad thing, the council concluded. "Ironically, it is the lack of a clear identity for the region which provides its strengths," the council wrote in a report on the funding gaps.

"It is a region of diversity and contrasts, and includes coastal resorts, heavily urbanised and industrial centres, and areas of outstanding natural beauty such as the Peak National Park and Sherwood Forest." For instance, while its industrial base – in particular mining – has collapsed, manufacturing still represents almost 30 per cent of the region's output and around 23 per cent of employment.

With such a varied economy, the task of the RDA is a tall one – and made no less daunting by the region's vaulting ambition. Paul Hodgkinson, chairman of both the regional Confederation of British Industry and the East Midlands Economic Development Forum, says: "The main issue currently facing the region is that we are 32nd out of 72 regions in terms of the pecking order in Europe in terms of GDP per head, and fourth out of 10 in the UK.

"Our task for the RDA is to bring us up the list by at least four places in Europe and to third place in the UK. We will probably have only around £4m to leverage up £40bn of economic activity to bring the region up the pecking order. That means networking current money to make it work smarter and better, and chasing only a few things to do well, rather than a very long list."

Take inward investment, where the region has lagged its West Midlands rival for several years and was late in setting up a regional agency to promote itself to investors. "We have to make sure that when a customer looks at the area they are offered a friendly response," he said. "A lot of the time it is very difficult to do that when you have four or five squabbling local authorities which really do need to have a co-ordinated approach in place."

That view is echoed by John Finch, chief executive of the East Midlands Development Company, which aims to attract inward investors. "We have seven training and enterprise councils (Tecs) in this region, but they are only beginning to work more closely together in certain things like developing a regional approach to the skills inward investors need," he says.

"We would be able to do that much better in an RDA, whereas today, if we have a problem, we have to drag it around seven Tecs. It would be much better if there was one place to go to."

Part of that integration is likely to come from the regional chamber, which several other regions rejected as business leaders refused to accept oversight from political and trade union representatives. For Robert Jones, leader of Derby city council, the chamber is a unifying force.

Nottingham: some of the city's traditional industries such as knitwear have suffered in recent years Photo: Nottingham Evening Post

"We are really building regional institutions in the East Midlands from a comparatively low base, compared to some of the more historically, clearly identified regions," he says.

"Therefore we do need, in my opinion, a local, indirectly-elected body which will cultivate that sense of regional identity. We want an inclusive feel about it, particularly as the local authorities do not have an incredible history of working with the private sector in the region. Without a chamber there is a danger that the RDA members would become a little detached from the region."

Other political leaders are less certain about the RDA's ability to galvanise the region. Graham Chapman, leader of Nottingham city council, says: "It is two cheers for the RDAs. The weakness is that it is very unclear what democratic accountability there is, and also that it has not taken on enough responsibilities – such as employment issues.

"On the other hand, it will give the East Midlands an identity where before we suffered from a lack of identity, and a lack of National Lottery success and grants in general. It will also give us a voice in Europe, which is absolutely essential."

In the meantime, the RDA will have to address some crucial economic issues in the region. According to recent surveys, business optimism has slumped to its lowest level since October 1992, as exporters in particular have reported lower revenues and static orders.

At the same time, domestic demand has proved strong, causing a different set of problems, particularly among service companies – a shortage of skilled workers and production capacity. According to Business Strategies, the economic consultancy, capacity tightened considerably at the start of this year. Only one-third of companies reported excess capacity in the region, while more than half reported excess capacity last autumn.

Furthermore, according to government statistics, the region has very high levels of low-wage earners. Across the UK, the percentage of women earning less than £170 a week is 18.6 per cent. In the East Midlands, it is 25.1 per cent. It is perhaps unsurprising that almost three-quarters of the region's businessmen reject the policy of a minimum wage, particularly in industries such as textiles, which have suffered from intense competition by low-cost foreign imports.

From the depressed former coalfields of north Nottinghamshire to the wealthy financial services call centres of Northampton, the challenges facing the East Midlands are enormously varied. They may yet prove too diverse for a single RDA to manage effectively. But at least for the first time as a region the East Midlands can finally attempt to reach its own ambitious goals.

East Midlands

TEXTILES AND FOOTWEAR

Cheap imports are now the fashion

High consumer spending has failed to protect traditional industries from harsh trading conditions, says Richard Wolffe

There was a time when rising confidence among *retailers and strong high* street spending meant nothing but good news for the textile and footwear producers of the East Midlands. But in spite of the high level of consumer spending over the last year, fashion-related industries in the region have, in fact, suffered some of the harshest trading conditions in living memory.

Surveys of business confidence in the East Midlands paint a bleak picture. While the mood among retailers and service companies has remained buoyant over the past 12 months, confidence among textile companies has slumped along with profits.

In spite of good consumer confidence, the traditional fashion industries of the region have come under increasing pressure from cheap imports and intense competition from low-wage manufacturers in developing countries.

In textiles, both fabric manufacturers and sewing operations have suffered in recent years at the hands of competition from Asian competitors and new rivals in north Africa. Marten Fraser, partner in charge of accountants Price Waterhouse in the East Midlands, said foreign competition has become especially intense as sterling rose last year and Asian currencies devalued sharply.

"For a lot of areas there has been a steady movement of manufacturing abroad, and I think that is continuing," he says. "There used to be a perception that in order to be able to offer the best service to the retailers you traditionally needed to have factories in the UK. If your order went particularly well, there had to be a way to respond to the retailer's extra orders – especially if the cloth came from eastern Asia.

"Now the trend in competition is not so much from there but from Morocco and Tunisia, where orders can get back into the UK *quickly*."

Lace manufacturing – a particular strength in the Nottingham area, which is famous for its historic Lace Market – has suffered a further blow over the last two years. Traditional lace has fallen out of fashion, leading to the closure of several manufacturing operations in the region.

Some companies have managed to avoid the worst by investing in new knitting machines to produce complex, textured fabrics which barely resemble traditional lace. Others, such as Nottinghamshire-based Filigree, have survived by importing curtains for the home furnishings market.

Stephen Walkley, marketing director, says: "What has happened in furnishings is that there has been a trend to woven voile curtains, which is a sheer lightweight woven fabric, which is more expensive. We import the fabric from Korea and sell it in competition with our lace.

"In garments, trade is especially difficult in the UK. One of the problems is that the industry has relied on exports for a very significant chunk of its business, and that has died because of the strong pound. There are also a lot of importers, particularly from Turkey at the moment, who can set themselves up very easily. A lot of people in textiles are surviving rather than prospering."

The Lace Federation, the industry association, is now planning to counter the rise of foreign rivals by authorising a special logo to brand Nottingham lace, in much the same way as Sheffield has branded its steel.

Lincoln Austin, of the federation, says: "We are hoping that if the logo becomes adopted by the high street it could make a big difference to people's perceptions. Nottingham lace is renowned throughout the whole world."

In the footwear business, margins have been particularly squeezed by declining sales in recent weeks – at a time when the Confederation of British Industry reports that almost every other retail sector has increased sales.

Niall Campbell, chief executive of the British Footwear Association, says: "It is a labour-intensive industry and relatively low-tech, so you find that imports represent more than 80 per cent of shoes in the UK, and China is the world's major footwear producer. The British consumer does not expect shoes to be expensive."

The best success stories of the East Midlands are not in the mass market but in street fashion and high quality men's footwear – Northamptonshire-based companies such as R.Griggs, which makes Doc Marten shoes, and Church & Co, which produces high-quality shoes for men.

Others, such as the small Northamptonshire company WJ Brookes, have had to diversify quickly into some niche sectors to survive. From winkle-pickers to fetish stiletto footwear, and from ladies' sandals to steel-capped shoes, the family-run concern has been forced into being flexible.

Steven Pateman, managing director, says: "We make anything. Times are very hard at the moment, and to keep going we have to try and find niche areas where we can find the customers."

The result has been a rollercoaster ride over the last two years. "In 1996 we put in our biggest profit in 109 years, while in 1997 we put in our biggest ever loss," he says. "The man on the street in England does not care where he buys his shoes from. Luckily, in places like Germany, they want to buy British footwear far more than other shoes. But the high pound has been killing us – it has been the death-knell of British footwear.

"Our factory has always been a traditional men's footwear factory, but this year I have had to start making ladies' and men's high heels, which is totally unheard of. It is make-or-break time."

The textiles industry is under pressure from low-wage manufacturers in developing countries Photo: Nottingham Evening Post

TRANSPORT

Still waiting for some green lights

Congested roads and poor east-west rail links are long-standing problems, writes Juliette Jowit

One thing drivers in the Midlands quickly learn is to avoid the M6, where stories of motorists at a standstill for 20 minutes at a time are not uncommon.

The infamous route is one of many problem roads in the east of the region, which has more than 20 proposals pending on the government's Highways Programme.

Also awaiting attention are a raft of plans to reduce urban congestion, to improve rural public transport links, to up-grade east-west railways, and reduce traffic pollution.

Such a multiplicity of sometimes conflicting demands is a perpetual headache for regional planning authorities, businesses, residents and environmental groups.

The two main problems with the region's transport network are poor rural links for a large proportion of the population, and chronic congestion in a heavily-industrialised area where road transport is vital to commercial survival.

A regular business survey on the East Midlands by Price Waterhouse reveals roads are a great concern, especially in Lincolnshire, where plans to upgrade the main A1 north-south trunk road and the A46 link between the M1 and the A1 appear to be a long way off.

There have been improvements, including the M1-A1 link in Northamptonshire expected to boost distribution in the area, and the M1-M6 Derby southern bypass, which should open the north-west and north Wales to local companies.

But many schemes remain political and economic hot potatoes – both in the East and West Midlands, where projects such as the controversial Birmingham northern relief road, linking the M6 and M42 motorways, would have important knock-on effects in relieving local congestion.

Similarly, there are a variety of urban schemes to relieve traffic pressure – some of them trying to push traffic off the road, some encouraging motorists to opt for public transport.

Using the carrot and stick approach, Leicester is trialing "virtual tolls" to find out how much motorists have to be penalised financially before they leave their cars at home – while, like Derby, it is also reviewing ways to make public transport easier and more attractive to use.

Nottingham is pressing for funds to build a guided tramway metro system, similar to those in Manchester and Sheffield, and all three East Midlands cities are looking at ways of cutting back and taxing office car parking, to discourage people who only use their car to get to and from work and home.

That businesses at least have recognised the need for such drastic action is illustrated by the growing number of employer-led schemes to tackle ever-increasing car use, says Tony Aitcheson, of the Local Government Association.

Several companies actively encourage car-share projects and some, including Boots, which has its headquarters in Nottingham, run workers buses to ferry staff to and from the office.

"Responsible employers in the next 10 to 15 years are increasingly going to be trying to get their workforce to use public transport as much as possible," says Mr Aitcheson.

"The problem is, if people don't tackle these things, the cities will just snarl up and that's totally counter-productive for businesses and generally destructive."

At a wider, more strategic level, local planning authorities are also being encouraged to site developments closer to existing shops and *services, to reduce the* long-term need to travel at all.

Before there is a large-scale migration back to public transport, though, the region's leaders recognise more needs to be done to improve bus and train services. In both urban and rural areas, many local projects are being set up to introduce bus-only and priority lanes, upgrade waiting facilities, and put in electronic information boards so passengers know how services are running.

On the railways, less is being done, which is a big problem on east-west routes, says Marten Fraser, partner in charge of Price Waterhouse in the East Midlands.

North-south rail links on the electrified east coast mainline are among the best in the country, providing fast and regular services to London, and soon, on Eurostar to Europe. Rural services have also been improved by the recent opening of the Robin Hood Line, linking the coalfields of south Derbyshire and Nottinghamshire with Nottingham.

Daventry Rail Freight Terminal is also expected to improve facilities for companies wanting to take lorries off the roads.

But community groups are still pressing for better rural *services in Lincolnshire – on* the proposed Ivanhoe Line – and for upgrading of the cross-country tracks to improve journey times.

"The region's business community has lobbied long and hard for electrification on this route," says Mr Fraser "but that does not appear to be a priority for the government or Railtrack, and so the main cities of the region will remain a rail backwater."

Least problematic of all are air links – with East Midlands airport near Derby, Humberside airport and easy access to Birmingham, Sheffield and even Manchester, services are generally agreed to be good directly to the UK and Europe, and via Amsterdam and London to the rest of the world.

Even here though there is a whiff of controversy at East Midlands, where operators want to extend the runway to allow larger aircraft to run at full capacity, opening up long-haul routes.

The danger to the project is posed by environmental and noise-pollution complaints – and the argument that proximity to Birmingham's long-haul facilities reduces the need for the extension.

Flexibility has been a key to the success in the engineering industry

ENGINEERING

Manufacturing pounded by sterling's strength

Many survivors of the last recession have little scope for finding even greater efficiencies, writes Juliette Jowit

After 100 years of metal-bashing in the Midlands, Jones & Shipman is considering the once unthinkable – moving its toolmaking manufacturing to the US.

The move, as yet no more than an option, has been forced on the Leicester company by the strong pound, which has reduced exports from two-thirds to one-third of sales.

Jones & Shipman has survived so far by investing £1m a year in new products and markets, continuous efficiency gains, and constantly debating moves such as a shift to a newly-acquired subsidiary in the US, which would help to avoid disadvantageous exchange rates.

"It would be unfair to say it was more than a consideration, but if the pound remains where it is and we are not seeing any reduction for 12 months or so, it makes manufacturing in the US for international markets more attractive than it was," says John Wareing, chief executive.

Flexibility has been the key to the success of the region's engineering industry, claims Nigel Chubb, chief executive of the East Midlands Engineering Employers' Federation.

A wide range of engineering activities has given the region strength in times of trouble. "The East Midlands has not been identified with one particular sector – such as aerospace, auto components, machine tooling or power generation," he adds.

"It means if one sector has been down the other sectors have been able to keep its head up."

Engineering in the region accounts for about 30 per cent of GDP and employs an estimated 180,000 people, excluding smaller engineering units within other industries.

But, despite its importance, there are some long-term problems which suggest structural faults in the industry.

A recent report by the regional government office noted productivity was only 88 per cent of the national average, as were investment, research and development, high-tech operations, staff training and management skills.

These are the issues which worry the region's industrial leaders as they face up to the problems brought about by currency and other economic problems in Asia.

A survey by the Engineering Employers' Federation shows companies in the region reporting a steep fall in new export orders and recruitment has slowed dramatically.

Many survivors of the last recession are already "lean and fit", with little room left for efficiency savings and often running at a loss to stay in hard-won markets.

If sterling maintains its strength much longer they face being squeezed out eventually, with disastrous consequences in the long term, warns Mr Chubb.

"If a company starts shedding labour or moving outside a particular area of operation, they know what the long-term consequences will be, and while it's so competitive you'll never get back into the market," he says.

The troubles in Asia are less worrying – "on the scale of concern, if 10 is very concerned, I'd put the pound on eight and Asia on three or four" – but are hurting some businesses.

In 18 months Jones & Shipman has seen annual orders of £2m from South Korea disappear.

Smaller and medium-sized companies are more vulnerable to the strong pound than larger businesses which can trade in dollars or switch manufacturing to overseas operations, although larger operators are also affected.

The Derby-based operation of Adtranz, the global rail system business, has suffered little financial loss because most of its customers are British-based. But tentative moves into overseas markets are being repressed and the company recently lost an order from Singapore worth about £100m to Anglo-French GEC Alsthom.

"We know the prices and the exchange rate lost us that contract," says Brian Smeeton, sales manager.

The employers' federation report is, however, confident that the East Midlands has many advantages – a "good climate for business", good education and training, attractive social conditions and a high quality infrastructure of transport, communications and land.

Being centrally positioned in Britain is a huge advantage. The region is well served by the *north-south* motorway network – although the east-west *routes are not so impressive* – and office rental values are among the lowest in England.

Mr Chubb is similarly confident about the future, predicting further efforts to improve efficiency and growth in several British markets such as in transport.

Adtranz and other companies in the transport industry are profiting from a boom in train orders since privatisation, now worth an estimated £2bn, and the prospect of investment in London Underground.

"The privatisation boom is coming to an end, but economic upturn promises more long term growth," says Mr Smeeton.

"This is coming forward as orders for additional vehicles for extra capacity."

"The very high pound is making life *difficult*," says Peter Stevenson, regional director of the Confederation of British Industry. But he adds: "Fundamentally, I think the engineering industry has done a lot for itself over recent years and in principle I think the strength is there."

FINANCIAL SERVICES

Valuable source of jobs is emerging

The region's universities have proved a good selling point in attracting companies, writes Christoper Brown-Humes

Asked to conjure up their idea of the economic mainstays of the East Midlands, most people would probably plump for grimy coalfields rather than gleaming call centres.

But those responsible for attracting investment into the region say the perception lags reality and that financial services are starting to become big business and a valued source of employment.

Two big investment decisions recently support their contention. Capital One, a big US credit card group, announced in December that it was setting up a European operations centre in Nottingham. The investment is worth £30m and will employ 900 people when it is fully operational next year.

A second boost came in February when the Pru said it was setting up a call centre in Derby to facilitate the expansion of its direct banking operations.

This could create 1,500 jobs over five years and will allow the Pru to step up its challenge to the supermarkets and other life insurance companies in retail financial services.

Nor, according to the East Midlands Development Company, is this necessarily the end of the story. "Two banks are looking at the region as a possible location," says Ian Walker, a spokesman for the EMDC. "One would be for a call centre and the other would be for a back-office operation."

The hope is that such operations will build on the platform created by other financial services groups in the region. Barclaycard, Nationwide, Alliance & Leicester, GEC Plessey Telecommunications and Experian Systems all employ at least 1,000 people.

Capital One is believed to have considered Cork and Cardiff before selecting Nottingham. Nigel Morris, the company's president and chief operating officer, says the choice of Nottingham reflected the city's "highly qualified and motivated workforce, an ideal business environment and excellent transport links".

The company carried out dummy recruitment campaigns and psychometric testing on potential applicants before making a final decision.

The investment was a substantial coup for the region, not least because it was one of its biggest inward investment successes since Toyota set up a car plant at Burnaston, near Derby, at the start of the decade.

EDMC, English Partnerships – which is investing £2.9m – Nottingham city council and the government's department of trade and industry were all involved.

John Finch, chief executive of the EMDC, said the US group's decision "strengthens our region's competence in IT and financial services. We are convinced it will stimulate further investment".

The Pru's announcement a matter of weeks later shows how right he was. The big financial services group will invest about £25m in constructing and refitting two buildings on the Pride Park development site in Derby to create its call centre.

Derby beat off challenges from Cardiff and Sheffield, with Mike Harris, chief executive of Prudential Bank, praising the town's "good communication infrastructure, good economics and high calibre workforce".

Derby was particularly pleased with the investment because it has traditionally been seen as an engineering base, not a financial services location.

The EMDC says one of the region's selling points is that it has a well-educated population to draw on, with seven universities in the region.

This will have been an important consideration for Capital One, for example, as it has placed great store on attracting bright young graduates in its rapid expansion in the US.

There are other big financial services employers in the East Midlands. Alliance & Leicester, for example, true to its roots, has its main customer services centre at Narborough, just outside Leicester.

This employs 2,300 staff in a centre which only opened for business last year. More controversially, the former building society closed six of its branches in Leicester last year, although it still has 13 branches in the city, more than enough to meet customers' needs.

In addition, Barclaycard has its European headquarters in Northampton, employing 2,500, and Nationwide employs 2,000 in the same town.

Among smaller groups, Lloyds Development Capital, the venture capital arm of Lloyds TSB, is planning to open an office in the East Midlands this summer. It says it has been attracted by "the high quality of the businesses and the number of transactions consistently recorded in the region".

The EMDC hopes its recent financial services successes will produce the proverbial snowball effect. But the region will almost certainly face a battle, given the intense competition from other regions for investments and particularly for people-intensive call centres.

Recent research by Mitial, an economic development consultancy, suggested that operators would prefer to site their call centres in Scotland and north-east England. Both the Midlands and Wales ranked less favourably.

The survey suggested that the East Midlands accounted for just 4 per cent of all Britain's call centre jobs, although this was before the Capital One and Pru investments were announced.

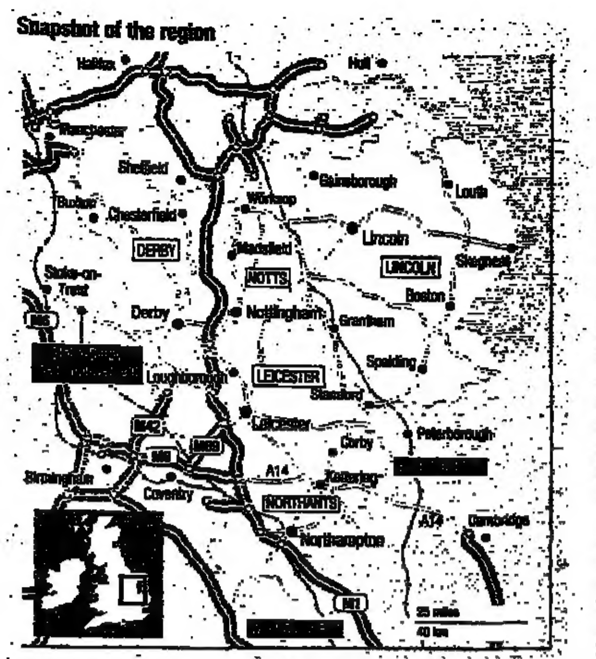
Having said that, there is a view that a region can reach a point where it runs out of suitably qualified personnel to staff another big call centre. The EMDC believes it is a long way from this point.

"We haven't got a huge number of call centres spread across the region and that makes it increasingly attractive to new operations," it says.

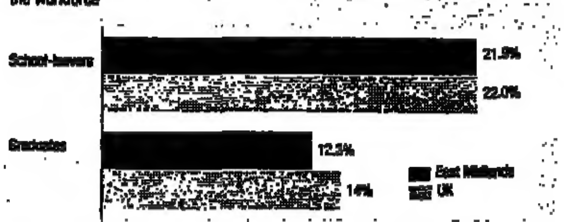
● Call centres, Page 5

East Midlands

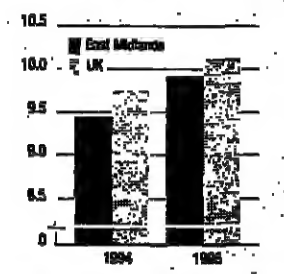
Snapshot of the region



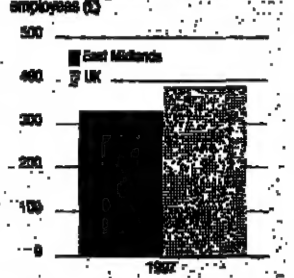
Middle of the class
GCE 'O' level or equivalent passes and degree or equivalent passes among the workforce



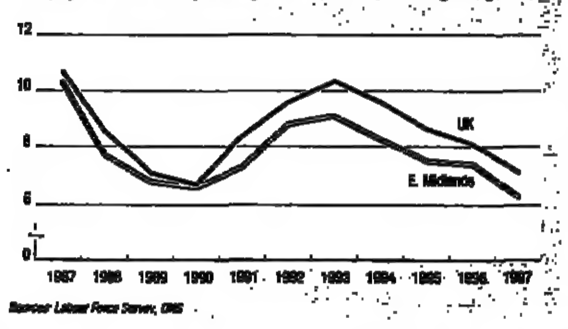
Productivity below par
GDP per head (£'000)



Fewer pounds in the pocket
Average gross weekly pay of full-time employees (£)



Better than average job prospects
Unemployed claimants as a percentage of the workforce, according ILO figures

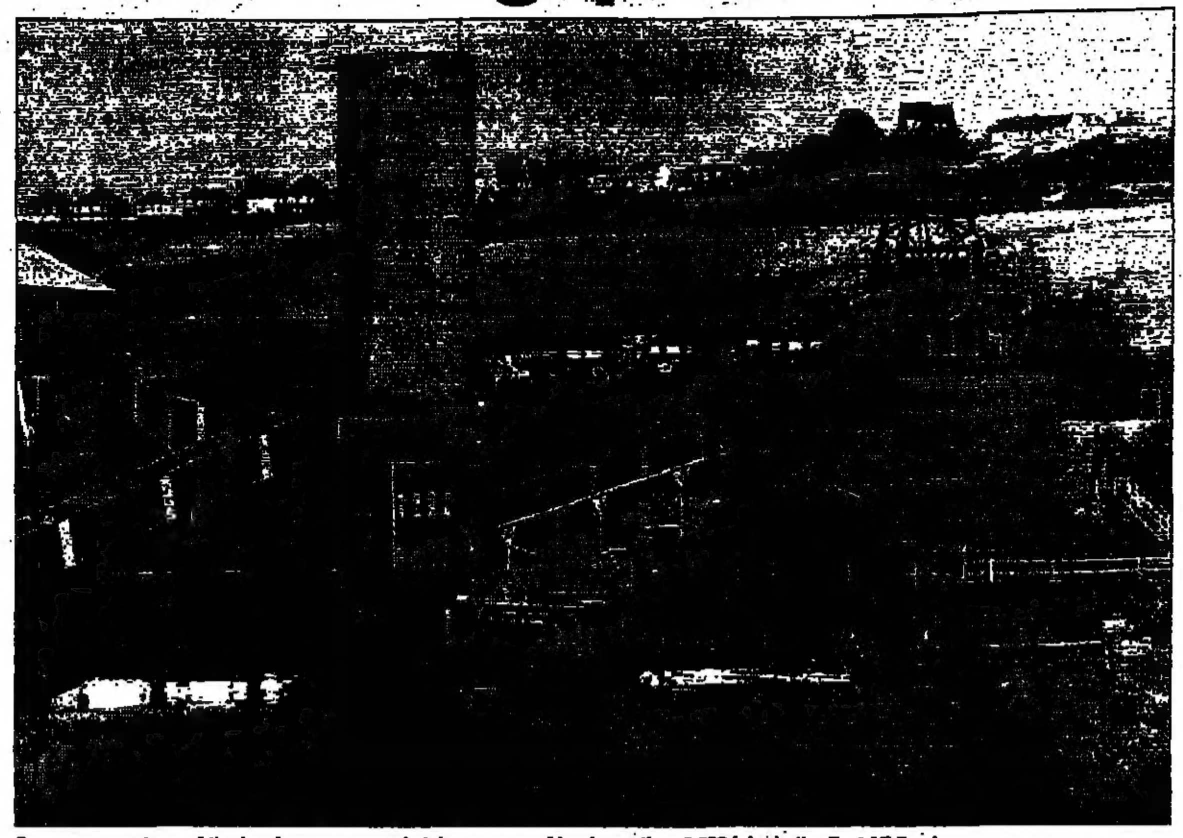


Source: Labour Force Survey, ONS

MINING

Coal creates a burning problem

Fears of more closures raise the prospect of another blow to the local economy, writes Deborah Hargreaves



Once a cornerstone of the local economy, coalmining now provides fewer than 3,000 jobs in the East Midlands Photo: Nottingham Evening Post

Employment in coal mining in Nottinghamshire could decline to just 1,000 by the end of the century, with only two pits remaining in operation, according to analysis put together by the county council.

This scenario is based on fears that RJB Mining, which took over the bulk of coal mining operations in the region, will not be bailed out by the government in its review of energy policy.

Tony Blair, prime minister, brokered a temporary reprieve for the company earlier this year by leaning on Britain's electricity generators - to extend their coal contracts with RJB until the end of June. By then the government should have completed a review of energy policy which could provide a rescue package for the pits.

Richard Budge, chief executive of RJB Mining, warned at the beginning of the year that he would have to close up to eight pits and make 5,000 employees redundant when the contracts expire. Last year RJB sold 27m tonnes of coal to the three main generators, but it has replacement contracts for only 14m tonnes.

The closure of more mines in the East Midlands would prove a blow to an economy which has seen its coal industry shrink considerably in the past five years.

Coal mining has gone from being a cornerstone of the Nottinghamshire economy to a minority pursuit. In 1961, when coal was at its peak, 56,000 people were employed in mining in the region – underground in 39 collieries – and in the headquarters of two regional divisions of British Coal. Coal accounted for 18 per cent of the male workforce.

In Nottinghamshire, coal mining was the largest employer, narrowly beating the county council. By 1992 the number of pits was down to 13 with 12,300 workers. Last year this had shrunk to six pits and 2,700 employees.

The county council estimates that the 1992 pit closures resulted in a loss of £224m to the county's economy. It also points out that the raw figures mask the knock-on effects in connected industries of coal's decline.

The county's prosperity measured by GDP fell from 99.4 per cent of the national level in 1991 to 95.9 per cent in 1993.

"Pit closures are so severe because they are concentrated in a small geographical area, in villages which have been built specifically to serve that colliery," says an official at the Coalfield Communities Campaign, a coal pressure group.

Although the mining industry is now less important than previously, pit closures still have a devastating effect on the communities they affect. A report by Nottingham county council points to an increase in social problems in pit villages, deteriorating health, and breakdown of community facilities.

Collieries are often situated in rural, isolated locations which have always been centred around the mine. Transport links are often not set up to provide people with a way of seeking advice, training and jobs in neighbouring cities.

Terry Nash at Mansfield 2010, one of the organisations working on the regeneration of the former coalfields, says the introspective nature of mining communities can make it difficult to direct people into new jobs.

"It is a cultural problem," he says. "Often the whole community has been geared towards coal. There is a feeling that you don't have to try hard at school because you will go to the pit."

Mr Nash is working to try to change some of the preconceptions among coal communities so that former mineworkers can be retrained to take up jobs which often require computer skills.

The county council has initiated its own regeneration projects chiefly to improve transport links to ex-pit villages as well as environmental improvement and landscaping schemes.

Jobs are available in the region. It has attracted its share of inward investment and local businesses are expanding. But Mr Nash points out that this is not helped by a mismatch of skills.

"There is high unemployment, but a fair number of jobs cannot be filled," he says. "A lot of people who were employed in mining need extensive reorientation before they are even ready for retraining."

Local politicians are working hard to secure a future for coal in the region. When RJB bought 15 deep mines in 1994 as British Coal was privatised, Mr Budge promised big savings in operating costs and a bigger market for coal.

But RJB was recently criticised by a committee of MPs for complacency and poor commercial judgment by failing to deliver significant cost savings. The influential trade and industry committee put the blame for the crisis in the coal industry firmly at RJB's door.

Although Mr Budge defended his management of the company, saying he had cut costs by 15 per cent in three years and cut 4,000 jobs, the MPs' criticism makes it more difficult for the government to bail out the company.

It is difficult for RJB to compete with coal imported from low-cost producers in countries such as Australia without government intervention.

The strength of sterling has exacerbated the price difference with Australian coal selling in Britain for £24 a tonne compared with an average of £36 a tonne for RJB.

Professor Stephen Littlechild, the electricity regulator, has told the government the coal industry should halve in size over the next few years in order to keep electricity bills low.

However, RJB is not the only company digging for coal in the East Midlands. On a smaller scale, Midland Mining is hoping to go ahead with a plan to mine for coal under Newstead Abbey in Nottingham in December.

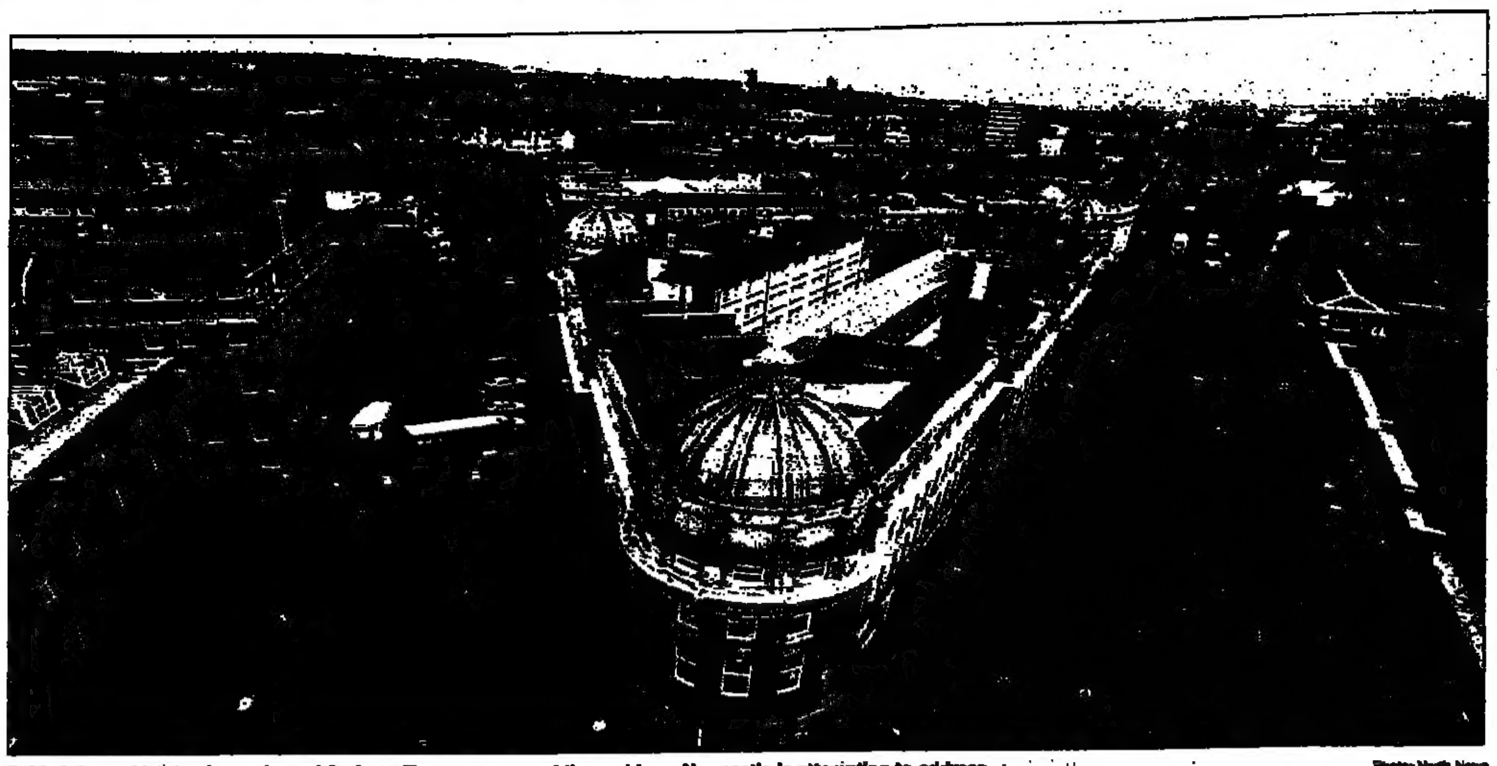
Newstead Abbey is the historic former home of Lord Byron, and the plan to mine 1.5m tonnes of coal from underneath it has caused much local opposition. But in an economy which grew up around coal, every attempt will be made to safeguard as many mining jobs as possible.

New life in city centres

NEWCASTLE

Planning for a real eye-opener

There has been much regeneration, but the loss of retailing has created problems in the Grainger district. Alan Pike reports



Behind the architectural spendour of Grainger Town are many of the problems Newcastle is attempting to address

Photo: North News

Priorities for the future of central Newcastle-upon-Tyne will be outlined in a plan due to be published next month following a series of "city centre summit" consultations.

Tony Flynn, leader of the city council, says the document will be "an action plan that all sectors can agree to". Issues addressed will include transport, retail and office development, the environment, employment and housing.

Newcastle's comprehensive review of city centre issues sits alongside a city council campaign entitled "Newcastle – a Real Eye Opener". Its aim is to re-image a city where, contrary to some lingering impressions, manufacturing accounts for only 6 per cent of employment and services 89 per cent.

"We have to get people who still believe Newcastle is an old-fashioned industrial city to come and see for themselves," says Mr Flynn. For strangers who take up the suggestion, an initial stroll around the city centre would not draw attention to many obvious problems.

Recent years have seen a successful, visually striking regeneration of the city's riverside. Eldon Square, Newcastle's big 1970s retail complex, holds its own against competition from the nearby Metrocentre at Gateshead.

In the historic central area of Grainger Town the distinctive facades of Grey Street – once described by the late Sir Niklaus Pevsner, the architectural authority, as the finest street in England – remain largely intact. But it is behind Grainger Town's outward architectural splendour that many of the problems Newcastle is seeking to address are to be found.

In the 20 years between 1820 and 1840 the builder Richard Grainger transformed the heart of Newcastle into the graceful central area now named after him. Such is Grainger's legacy that around half the buildings in the 90-acre district are listed – 60 of them Grade One.

But, in recent years, the departure of retail and commercial activities to other parts of the city has led to a growing number of Grainger Town's buildings becoming abandoned and dilapidated. Around 1m sq ft of floorspace in the district is now unoccupied, with much requiring substantial restoration.

Agreement on a five-year, £120m regeneration programme co-ordinated by the Grainger Town Partnership, a public-private sector body with 18 directors, now signals the start of a co-ordinated drive to revive the area's fortunes for the next century.

More than 100,000 sq ft of new, high quality retail space is due to open in Grainger Town by Christmas on the site of a former department store. There are proposals to raise the area's 1,200 resident population to more than 3,000 – Grainger Town has the most ambitious living-over-the-shops plans in the country. The quality of public spaces will be improved, the potential for encouraging new business start-ups in the city centre exploited, and catering and leisure facilities enhanced.

Grainger Town and its immediate surrounding area house Newcastle's Theatre Royal, the Tyne Theatre and Opera House and institutions including galleries, museums and Newcastle Cathedral, making the arts and tourism a central part of the regeneration strategy.

"After a long period when the emphasis has been on construction-led regeneration, the focus is shifting to an appreciation of the benefits of reviving established parts of city centres," says Chris Oldershaw, chief executive of Grainger Town Partnership. "Things are moving in our favour."

Grainger Town's recent problems have included losing commercial tenants to the nearby Quayside development on the banks of the Tyne, as businesses took the chance to vacate 19th century accommodation in favour of purpose built, open plan premises. But Tim Evans, a partner in Knight Frank, which handles property in both Quayside and Grainger Town, does not think it helpful to treat the two locations as competitors.

"They link together as an integrated part of the city centre. Quayside, looking on the river, should be regarded as a new street on the edge of Grainger Town. The splendid facades of Grainger Town offer their own unique potential to attract tenants, provided we are able to develop modern office facilities behind them. Revival of historic town centres cannot work if requirements to retain every item of original interior detail means we are unable to create accommodation that today's businesses want."

EDINBURGH and GLASGOW

Scots aim to regain competitive edge

The Scottish capital is striving to provide a cleaner and more friendly appearance for tourists, writes James Buxton

You might think a city such as Edinburgh, blessed with a superb natural setting and magnificent townscapes, would not need to do much more to make itself appealing.

In reality, the need to improve the city centre both for residents and visitors has been a priority for nearly 10 years. Now a new phase in the process is about to begin.

In the late 1980s civic leaders in Edinburgh started to realise that it was losing its edge in the competition with other UK cities to attract tourists. A study commissioned by the Scottish Development Agency found that tourists were distinctly underwhelmed by the city. The study eventually triggered improvements, implemented by the city council and Lothian and Edinburgh Enterprise (LEEL), the local enterprise company. Through traffic was progressively reduced along the High Street, or the Royal Mile. Cobbled paving was relaid to make walking easier, and the Old Town has become a far more pleasant place to visit and walk through.

Now the process of improving Edinburgh's centre is poised to move forward again. Though no one will admit it, many people in Edinburgh were stung last year by an article in *The Scotsman* by Andrew Neil, its editor-in-chief, in which he lambasted the city authorities for allowing the centre to be scruffy and strewn with litter and used syringes, and for tolerating beggars, even in Princes Street, the main shopping street.

It is too early to say that a concerted clean-up has begun, but things are changing. In the next few weeks Edinburgh should introduce teams of city centre representatives, people both to help visitors orient themselves and to help keep the place clean.

Here Edinburgh is following Glasgow, which took on board the need to make itself more appealing to tourists several years before Edinburgh and introduced city centre representatives in 1995. Glasgow normally has 32 city centre representatives, divided between the guides and the clean-up squad.

The guides, who are easy to spot in their red jackets, patrol the heart of the city, in places such as George Square, Buchanan Street and Sauchiehall Street, assisting people who need directions, welcoming foreigners with a few sentences of their own language, reporting vandalism and if necessary giving first aid.

The other squad removes graffiti and fly-posters and picks up litter blowing in the wind, though it leaves most refuse to the cleansing department. "We don't want to tread on their toes," says David McKee, the scheme's manager.

The city centre representatives scheme is also a way of getting unemployed people back into work. Only the unemployed are eligible for the jobs, and no one can stay more than a year. They are given training in welcoming visitors, and are taught basic information on the city and useful phrases in several languages.

They are not expected to drop their Glasgow accents, says Mr McKee, but: "We train them to speak slowly so that people can understand what they say, and when they give someone directions, not to end each sentence with the word "right", which is confusing when it comes after they've said left or right." More than 80 per cent of city centre representatives in Glasgow go on to full-time jobs.

On the physical side, Donald Dewar, the government's scottish secretary, recently gave Glasgow £25m over five years to improve the main shopping streets in the centre. Some £10m alone will be spent on giving Buchanan Street a facelift.

Back in Edinburgh, Richard Flynn, the manager of Boots the Chemist in Princes Street, has been seconded from the stores group to study improvements in the way the city centre operates. Working on behalf of a steering group comprising the council, LEEL, the chamber of commerce and other bodies, he is consulting businesses and other organisations about what they want the city centre to be like and whether they would contribute towards improving it.

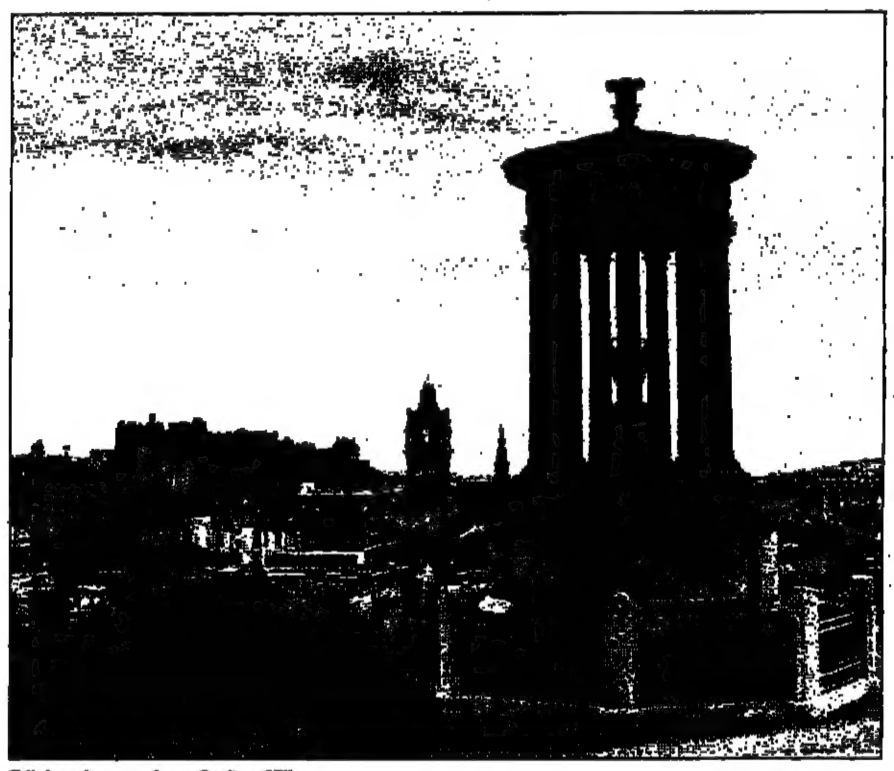
In physical terms the biggest initiative is the strategy for the First New Town, the grid of Georgian streets and squares to the north of the Old Town. The 10-year strategy sees the First New Town as playing "a diverse set of roles", including business, quality retailing, tourism and residential – much as it does now.

Margaret McNeil, of LEEL, admits there is only a small amount the authorities can do to steer businesses in the direction indicated by the strategy. She says the most obvious way they can intervene is by improving the public spaces to create a good environment for the type of development they want to see.

The most controversial proposal is to close sections of George Street and Frederick Street to traffic and parking. George Street is a wide thoroughfare lined with shops, bars and offices. Closing parts of it to cars would create a calmer environment and create acres of space for pedestrians, allowing bars and restaurants to spill out onto the street.

But it is also one of the commercial hearts of Edinburgh, thick with traffic and parked cars. "The danger," Ms McNeil acknowledges, "is that if you take away the cars it becomes dead – we'd be looking to avoid that." She also wonders whether clearing the streets of traffic is sensible for cold wet winter days when people on the streets are scarce. Any closure might only be imposed at certain times of the year.

Mindful of the pitfalls and potential damage to some companies' business, LEEL and the council are consulting widely on their plans for the New Town. The title of a new body recently set up for this purpose says it all: Forum for Urban Living.



Edinburgh, seen from Carlton Hill

Photo: Nigel French/Headline

CENTRAL LONDON

Capital ideas produce a breath of fresh air

A widely-agreed action plan aims to make strong advances in improving the environment and the economy. Alan Pike reports

Whatever other difficulties they might face, most town and city centres are at least of manageable proportions. Central London is a case apart.

Any attempt even to define its boundaries is an exercise in arbitrary map drawing. And, when undertaken, it produces an area containing more people than the entire population of any other British city, administered by a plethora of different authorities.

But these problems of size and organisation have not stood in the way of the development this spring of a widely-agreed action plan to secure a range of environmental and economic improvements to central London.

Central London is regarded by the project as extending east-west roughly between Liverpool Street and Paddington stations and north-south from King's Cross to Battersea – an area in which 1.5m people live, a further 1m commute from elsewhere in London and the south-east to work and, 26m more visit each year.

The action plan has been produced by the Central London Partnership, a public-private sector body set up in 1995 to make the centre of the capital a better place in which to live, work or wander, and chaired by Sir John Egan, chief executive of BAA, the airports group.

Sir John says the partnership gave itself a year in which to decide whether it could add to the work of existing London organisations. If, at the end of the first year, it had looked likely to become no more than a well-intentioned talking shop, it was ready to disband itself.

But the partnership, which includes all eight local authorities responsible for parts of the central London area plus about 30 other public and private sector organisations, decided that there were areas in which concerted action could make a difference.

Launch of the formal action plan comes after an early start on several projects to illustrate the partnership's potential. Poor air quality is a frequent complaint in central London, and the partnership is working with London Transport and leading taxi operators to reduce emissions from their vehicles through measures including the use of catalytic converters and cleaner fuels.

"We have shown already that it is not a case of just having to bleat about the bad emissions problem," says Sir John. "It is possible to do something about it and improve air quality."

Another early action by the partnership has been to offer co-ordinated support for the development of around 10,000 additional hotel rooms by 2000.

Sir John, a former chairman of the London Tourist Board, says the partnership's involvement is ensuring that boroughs such as Islington, Camden, Southwark and Lambeth benefit from hotel building that in the past was concentrated on a narrower concept of central London.

Top priorities for attention identified in the partnership's action plan include continuing with the commercial fleets cleaner air initiative, improving facilities for pedestrians and cyclists, developing a pilot project to show the potential for co-ordinated deliveries to leading London retailers and encouraging training and inward investment activities.

"Many of the partnership's specific actions will be relatively small scale," says Patricia Brown, its chief executive.

"We see it as a game of joining the dots, and showing that a series of small, linked changes can make a significant difference to the quality of life and increase economic opportunities."

Specific objectives will include a drive for cleaner public spaces in central London. Members of the public and businesses will be urged to identify open spaces suffering from poor maintenance, fly-tipping or graffiti, with local authorities undertaking to address such problems promptly.

The partnership intends to compile a list of up to 20 high-profile neglected spaces in the centre of the capital and says it will, ultimately by "naming and shaming", press for action to improve them.

The action plan commits the partnership to initiating and supporting business-led groups to manage and maintain commercial areas. It is already working with businesses and property owners in Oxford Street on such a programme.

A number of both public and private sector members of the partnership, says the action plan report, were keen to become involved in US-style Business Improvement Districts if legislation eventually allows them to be set up in London.

NORWICH

Shopping for a new identity and prosperity

Efforts to revive an historic city centre are proving a spectacular success story, writes Brian Groom

Can an historic city shop its way to prosperity and regeneration? Norwich is the test.

Some £500m worth of developments are planned or under way in Britain's largest medieval walled centre. One-third is a private finance initiative hospital on the outskirts but the rest are mixed shopping, housing, leisure and commercial schemes.

The retail strategy at the heart of it, commended by a Commons select committee, has delivered spectacular results. Ten years ago Experian, retail analysts, ranked it 49th among Britain's shopping locations. Now it is 10th.

A Hillier Parker survey shows a similar climb from 43rd to 18th, and prime shopping rents of up to £170 a square foot are among the highest in the country.

Norwich is often mistaken for a market town. In fact, it is a regional shopping centre comparable to Sheffield, Leeds or Cardiff.

"We attract retailers who don't normally go out to the sticks," says Mike Loveday, the city's head of planning. Virgin Vie, the cosmetics venture, has opened its fifth British store in the city and there are fashion stores such as Gap and Kookai.

A decade ago, when the city took stock of its position, the picture was bleaker. There had been little development since the 1960s and Norwich was losing trade to Peterborough and Cambridge.

As part of the route back it took an unusually vehement stand against out-of-town development and embarked on one of the largest pedestrianisation schemes of any city.

Its flagship was the £130m Castle Mall shopping centre, completed by Friends Provident in 1993, which involved digging a hole in the hillside next to the castle, building a five-storey centre and putting a four-acre park on top.

It was awarded the accolade of Britain's best shopping centre by the British Council of Shopping Centres; 12m people visit it every year.

The city needed more to complete its recovery. Norwich received a serious blow in the recession of the early 1990s with the loss of 10,000 jobs, including a Nestlé factory closure and cutbacks by Norwich Union, the dominant employer. The government saw it needed help.

Now Norwich has a £10.7m single regeneration budget scheme to revive the south-eastern area and a £3.7m capital challenge initiative to restore the fabric of the city centre.

A further £750,000 comes from English Heritage to conserve historic buildings, and the city and county councils apply annually for government funds to improve the transport infrastructure.

Developments are under way to revive many parts of the city, the biggest being a £75m scheme just begun by Gazeley and Railtrack on a 42-acre site by the river Wensum where the R101 airship was built.

It will have a Morrison's superstore, 14-screen UCI cinema, swimming pool, housing and other commercial development. "It will open up the river frontage and divert traffic from the riverside," says Peter Gomersall, Gazeley's development director.

Linking it to the main shopping centre will be a £43m scheme by Speciality Shops in the King Street area, including housing, restaurants, fashion stores and a costume museum.

Another £60m plan to develop the former Nestlé factory with shops, houses and a hotel is under discussion.

On top of that Norwich has one of the Millennium Commission's 14 landmark projects, a £60m high-technology library, business centre and heritage centre.

A £11m plan backed by the Heritage Lottery Fund to refurbish the 11th century castle will create a "Tate in East Anglia", a showcase for exhibitions from the London gallery.

A measure of success is the number of people returning to the city centre. Norwich had 80,000 living within its walls in 1890 but the number had shrunk to 2,000 by the 1960s.

Now it is back up to 10,000, with potential for up to 20,000 as old buildings such as breweries and shoe factories are converted for residential use.

"We can't be complacent, though," says Mr Loveday. Norwich still has large pockets of deprivation. Competitors are not standing still and a recession which hit consumer spending could leave it vulnerable.

The private sector and city council are joining forces to appoint a city centre manager to meet the threat from developments on the fringes of the urban area, other cities and even the Lakeside and Bluewater retail complexes on the Thames.

Call centres

IRELAND

Keeping staff is a big problem

A thriving sector in the Republic may provide opportunities north of the border, says John Murray Brown

"It's Ireland's growth rate that is the real problem," says Oliver Wigdahl, manager of American Airlines, one of the first airlines lured to Dublin where it now has its European reservation centre.

With the Irish economy growing at 8 per cent, keeping staff has become a big worry for call centres, a business with notoriously rapid rate of employee turnover.

"Working in a call centre is not a career. Our concern is not in losing staff to the competition but to other job opportunities in the economy," says Mr Wigdahl.

The Dublin government is aware of the problems. In one of its first moves on taking office last June, Michael Martin, the education minister, announced the creation of 700 new university places for teleservices courses.

Last month, Mary Harney, the deputy prime minister, announced a further 700 new jobs at Barclaycard and the Lotus Group – both UK concerns – and Softbank Corporation from Japan. She predicted "this dynamic sector is well ahead of target to create over 10,000 jobs within the next two years".

But CSR, a Dublin recruitment consultancy, recently reported that more than half of the Irish-based companies surveyed were having difficulties filling their places.

"This is a good news, bad news story for us," says Mr Wigdahl. "There are plenty of graduates, but they have higher aspirations, therefore it leads to attrition problems. But I think we are frank at the interview, tell them it's not the world's most attractive job, and warn them they're not going to get the glamour of an airline."

At Radisson Hotels, Jennifer McWade runs an operation making bookings for the group's 38 European and Middle Eastern hotels. Her office in a specially-built business park in residential south Dublin comprises 22 incoming telephone lines – all freefones – operated by 25 staff speaking 11 different languages.

The operation handles 1,000 calls a day from 7am to 7pm, when the service switches to operators in the US.

Radisson is typical of a number of Irish call centres where two-thirds of its staff are non-Irish.

A recent conference organised by the Irish Communications Workers asked whether the industry presented an opportunity for "social progress or the sweatshop", echoing the reservations of many economists about the benefits of such investments.

For the companies themselves, the advantages are obvious. The IDA highlighted the low wages as well as telecom costs and property costs for companies setting up in Ireland. A low 10 per cent corporation tax is also available.

American Airlines estimates labour costs are half those in Switzerland – with labour accounting for 45 per cent of total costs. Companies considering pooling their activities also have to consider the cost of closing existing operations and relocating key personnel. The cost of severance pay that would have been involved in closing the operations in Italy and Spain persuaded the company to keep the two centres open.

Denis Molumby, head of call centres promotion at the government-run Industrial Development Agency, says the improvement in telecommunications infrastructure – one of the legacies of Albert Reynolds's time as communications minister in the 1980s – has been vital. The development has coincided with the falling cost of international telecommunications, with Telecom Eireann establishing freefone services across Europe.

European labour laws mean it makes sense for companies to be in one place, he says. The tax advantages of pooling activities in one location is another reason.

For US companies, there is the more efficient use of computer time, with the Irish operators active while the US sleeps.

Compaq, the US computer company which announced it was setting up a multilingual help desk for its customers in Dublin, says the industry is increasingly recognising that good aftercare service can offer a key advantage over competitors. Ireland has already attracted Dell, Gateway, and more recently IBM to set up customer support centres.

Where the UK has made strides in the call centre business it is largely servicing UK-based companies; the Irish Republic has focused more on the pan-European service.

American Airlines runs its European reservations from Dublin

Mr Molumby, of the IDA, estimates Ireland now accounts for 30 per cent of all pan-European call centres in the European Union. To date, the industry has created 4,000 jobs in telemarketing – selling almost everything from insurance to computers – to "shared services," where banks and other companies pool their back office activities in one location to save on costs.

But Ireland's very success could prove the opening for Northern Ireland, as companies find difficulties filling their positions and look to the available labour supply north of the border – either to relocate or hire for their Dublin operations.

Some economists say the Northern Ireland authorities have been slow to seize the opportunity.

The call centre is still relatively unknown in Northern Ireland's industrial landscape. According to research by Mitial Group, the province has around 1,000 jobs in the sector.

British Telecom has created 750 jobs at a Belfast call centre, in an investment worth £9m. BT has four other call centres across Northern Ireland, and is working with the government jointly to promote the province as a call centre location.

BT claims its telecommunications rates are lower than those in the Irish Republic. Northern Ireland, so the BT brochure says, has the highest level of computer education in the UK.

Prudential, the pensions and life assurance group, has a telephone-based payments operation, and National Australia Bank has a UK-wide factoring operation in the province. In Londonderry, Stream International, a merger between Corporate Software and RR Donnelly of Chicago, provides on-line software support for corporate clients employing 200 people.

Such is the confidence of the government-run Industrial Development Board that it has invested in a customised call centre – the first speculative property venture ever undertaken by the government investment authority.

DEVELOPMENTS

Consolidation is growing trend

Joia Shillingford reports on how companies are progressing in the chase for more efficiency and cost savings

Call centres are growing in size as well as in number. While some companies are consolidating 20 or 30 small centres into one or two large ones, others are linking existing facilities to form large "virtual call" centres.

Bob Scott, director of electronic commerce at Cap Gemini, the European computer services company, says "consolidating call centres is a growing trend". For example, Cable & Wireless Communications – which was formed from the merger of four companies – plans to reduce its call centres to three.

"Companies can save money by consolidating staff into one or two buildings," says Cynthia Ngwe, of Datamonitor. "If two call centres with 20 and 30 staff are combined, the larger centre will be able to manage the same workload with 40 staff. It will also be easier for the larger centre to handle peaks in call volumes."

For example, "when Scottish Power closed seven regional offices and opened one in Cathcart, near Glasgow, it made cost savings," says Ian Valentine, GT-X product manager at Edinburgh-based Graham Technology.

But there are limits to physical consolidation. "Finding a building of the right size for 100 workers with sufficient parking isn't always easy," adds Ms Ngwe. "And the success of call centres in areas such as Leeds and Chester can make it difficult to find and retain staff because there is competition for educated workers."

Some call centres are even larger, with 1,000 staff or more. "These can be difficult to manage," says Ms Ngwe, "because there are typically three staff working shifts for every agent position."

A large building may also be expensive to run overnight for companies offering 24-hour services," says Mr Valentine. "Do companies really want to pay for all the building services when there is only a skeleton staff inside? They may find it easier to run the overnight service from a smaller office."

Rodney Craig, of International Business Machines (IBM), says several factors are driving demand for larger call centres. "First, the globalisation of brand images is making customers want consistent service whether they phone a call centre in New York, Birmingham or London. Consistency is easier to achieve in larger or distributed call centres.

"Second, the growth of the internet means that customers are starting to order goods in a variety of ways – not just over the phone. This means that call or 'interaction centres' need to offer an integrated service, capable of handling information from a variety of sources, such as phone, fax and electronic mail.

"Software is the key to giving a personalised response that is consistent with the brand image," says Mr Craig. But at present the software is expensive and is better value for money if spread over a large number of agent positions.

David Bradshaw, a consultant at Ovum, believes distributed (or virtual) call centres will become increasingly popular because technology is becoming available that makes it much easier to link them.

For example, British Telecom has linked six call centres – including Warrington, Bristol, Glasgow and Belfast – to create a virtual call centre with 4,000 agent positions. Already, the largest call centre in Europe, BT plans to link a seventh site, one in Scotland.

BT decided to link the sites so that any agent could handle any call, supported with the right information. "There's a trend towards the universal agent," says Mr Valentine.

BT is using Graham Technology's GT-X software to provide a consistent user interface at all sites that disguises the differences between different applications software. This software is held on a central system and is easy to update from a single site.

Graham Technology has a tie-up with Lucent, the US telecoms equipment company. Other suppliers that are offering (or planning to offer) products for distributed call centres include Ericsson, Nortel, Rockwell, Aspect and Mitel, says Mr Bradshaw.

He says the technology needs of large distributed call centres differ from small call centres in that distributed centres need telecoms switches and computers that can be networked together easily. They also rely on telecoms suppliers such as British Telecom to route calls between centres in an intelligent way.

With so much activity in the distributed call centre arena, Mr Craig does not think regions such as Highlands and Islands in Scotland with small call centres need to worry. "They could fill specialised niches or link into the larger centres," he says.

Moreover off-the-shelf software from IBM and others is becoming available that enables small call centres to be set up straight out of the box, and therefore with even lower set-up costs. Mr Bradshaw says whether companies decide to consolidate into one or two larger centres or set up virtual centres partly depends on their circumstances. If a company has unused office space in a number of buildings around the county, it may well want to use this rather than pay for a large new call centre.

Opinion

Karen Yeomans: she has to make an impact with a budget of just £1m and a staff of a dozen Photo: Brendan Corr

The south-east finds its voice

Brian Groom meets a woman shaping up to an odd challenge in economic development

At 34, Karen Yeomans, chief executive of newly-created South East Regional Investment (Seril), is the youngest and only female leader of a regional investment agency. She does not come from a background of inward investment, either.

It is not only these factors that mark her out as unusual. Ms Yeomans also faces one of the oddest challenges in the competitive world of economic development.

Seril was launched two months ago, the last piece in Britain's jigsaw of regional inward investment organisations.

You might think south-east England had least need of one. Second only to London in prosperity, the region stretching from Oxfordshire to Kent has performed so strongly recently that again it is the subject of fears of economic overheating.

Unemployment measured by the claimant count was 3 per cent in March, or 4.3 per cent in December-February according to the labour force survey.

Ms Yeomans, however, has no truck with complacency. At Seril's launch at an hotel near Gatwick airport, she tartly commented that while the south-east was successful in British terms, it played in a lesser league among European regions.

Using language more appropriate to a depressed region, she talked of beginning a "fightback".

To confirm the point, latest figures show that south-east England excluding London slipped slightly from 30th to 31st out of 77 Euro-regions in 1995 in gross domestic product per head.

"People think of the Thames Valley, Surrey and the affluent parts, but the south-east is a diverse region," she says. "If you think of East Sussex and the Isle of Wight in particular, those are areas where there are economic challenges."

The south-east, she argues, needs a voice. "At an international property conference in March, I was struck by how effectively nearly all the European regions, and a lot of major cities, were promoting themselves.

"We will just lose out. The success can wither if we don't spend time and effort on promoting it. The south-east must raise its aspirations."

This lies at the heart of the challenge for Britain – generating wealth to match its record in getting the jobless figures down.

How do you achieve growth where average unemployment appears low? The main responsibility will fall to the regional development agency to be created by next April, but Seril will play a part.

"It is about increasing the value-added and GDP levels," she says. "In some parts it is about getting into new technologies and in others it is literally about bringing jobs."

Ms Yeomans sees limited significance in her youth and gender, arguing that what people make of their experience matters most. A bigger difference from counterparts elsewhere is in not having years of inward investment behind her.

"I bring a different business perspective in that I have done a range of things, which is healthy for the industry."

A chartered surveyor, she first worked at Milton Keynes Development Corporation and then in the Paris office of Jones Lang Wootton. Moving to a management consultancy, Newchurch, she worked on the first private finance initiatives in health.

Later she became project director at London's Royal Hospitals Trust, including St Bartholomew's, the biggest health PFI scheme which involved a proposed move to a new hospital at Whitechapel.

The Seril job attracted her because it combined commerce with bringing public and private sectors together, had an international flavour, and would "affect people's lives".

Seril, based at Fleet, Hampshire, must make an impact with a budget of only £1m and a staff of 12, likely to grow to 17 this year.

It will concentrate on four sectors – information technology and telecommunications, pharmaceuticals and biotechnology, high-technology engineering, and business and financial services. But, to avoid spreading itself too thinly, its initial priority is IT and telecoms.

It is researching them and will produce a marketing strategy, the first step towards finding more about the 3,000-plus foreign companies, covering all sectors, thought to operate in the south-east.

The agency will have no job creation target for its first full year but is expected to generate 315 enquiries, compared with 161 in 1996-97, 50 company visits and 18 successes.

Visits have already increased. "The government office for the south-east previously did about six in six months. We have done 34 in five months."

Biggest sources of investment are the US and Canada, followed by France and Germany.

Among obstacles are a lack of business parks and new office developments in neglected areas. Ms Yeomans wants to talk to local economic partners about ways of stimulating speculative development, or "fast-tracking" planning applications.

The transport infrastructure, though in many ways the region's main selling point led by Heathrow and Gatwick airports, is another topic she hopes the RDA will address.

"Some parts of the south-east are not as accessible as businesses would like." The IT infrastructure, too, may need development.

She hopes to put energy into retaining companies already there. "We are losing companies out of the south-east, in some ways through cost – property, labour – and planning constraints can make expansion difficult.

"That is something at which we must look closely. It is easier to keep companies than attract new ones."

This ties in to the danger of complacency. While some south-east towns have very low unemployment – in Newbury, Berkshire, it is 1.1 per cent – it is not that long since rates of 8, 9 or 10 per cent were seen in normally prosperous places.

"We had a bad recession in the early 1990s and we really felt the effects of it down here. Those times could come back."

Seril is in its honeymoon period. "If in three years we are still getting the same level of support, I'll take heart from that," she says.

It could take a decade to see the south-east move up the European league. "Some of the things the south-east is going to have to face up to are difficult, sensitive issues. They will not be resolved overnight."

VIEWPOINT • BY BRIAN GROOM

Crossed lines between City and regions

Many of the smaller listed companies fail to show up on the radar screens of institutions driven by sectoral analysis

Brian Woods-Scawen, Midlands chairman of accountant Coopers & Lybrand, made his controversial argument forcefully: many companies in his region believed they were being held back by the City of London. Institutions and fund managers failed to take the time and effort to understand company strategies, and in doing so they missed investment opportunities.

"They do not have enough insights to add value to the relationship and most of all they don't say what they think," he said. "Too often, if investors are dissatisfied they speak in a coded language which is hard to translate. As a result, management is not fully aware of what the investors are saying."

The City was driven too much by sectoral analysis, charts and analytical tools. It missed the growth potential of smaller companies. "Over 100 Plcs in the Midlands are capitalised at less than £100m and are therefore below the radar screens of many institutions. However, the investment performance of the best of these companies has been truly outstanding based on high-quality management and clearly thought-through strategies."

It is not hard to win support for the case that the City pays insufficient attention to regionally-based quoted companies. It is harder, though, to answer the deeper question it raises: what can be done?

The scale of the problem should perhaps not be exaggerated. Compared with what seemed likely 10 or 20 years ago, the UK has a healthy spread of regional quoted companies. According to research last year by BWD Rensburg, the Leeds-based financial services group, 742 companies – 40 per cent of the total, excluding investment trusts – were located in Scotland, Wales and English regions outside London and the south-east.

This level of local decision-making is crucial to the stability of regional economies. In the last recession, hundreds of quoted companies closed in London and the south-east, but other regions saw a much lower reduction. One reason is that following the big closures in coal, steel and heavy engineering in the 1980s, regions have developed a wider spread of industry and commerce, improving their chances of riding a downturn.

Some companies, including those in manufacturing, have acquired world-class managements as a result of lessons learnt in past recessions. That is precisely Mr Woods-Scawen's point – these achievements are not being fully recognised by the City. It can hamper the ability to expand through acquisitions or fund-raising issues.

Good performers, especially those in fashionable sectors, tend to win through eventually. The event at which he was speaking, the ShareLeague Awards, provided ample evidence of that. DCS Group, a Leamington-based computer systems and software house, won the award for the greatest increase in share price of any West Midlands company over five years, with a remarkable 1,688 per cent rise.

There are plenty of examples, though, of the City being slow to pick up on imaginatively-run regional companies. Mr Woods-Scawen cites Finelist, built by its chairman, Chris Swan, into one of Britain's two largest car parts distributors. Now its success is well recognised: the shares have trebled in value since it obtained a full listing in 1994, and market capitalisation has increased more than tenfold. But, for the first couple of years after flotation, the market was slow to recognise its potential.

The problem, some say, is more a small companies issue than a regional one. Many business leaders feel, however, that it is harder to get noticed the further away from the capital you are. A lot of companies will recognise the picture Mr Woods-Scawen paints of managers trailing to London (or sometimes Edinburgh) to make a painstakingly prepared presentation to analysts who ask few questions, then move straight on to the next meeting.

The bigger companies are followed by analysts, as are high-fliers in exciting areas such as software – the winners in each category of the ShareLeague Awards were software and systems houses. Regional companies in less fashionable sectors have a harder task getting their performance recognised.

The root of the problem, says John Rogers, director of investment services at the National Association of Pension Funds, is resources.

"If you think in terms of risk and reward, the efforts of most managers are going to be concentrated on large cap companies because these are going to be the majority of their portfolios. The top 350 companies represent 95 per cent of the value in the market."

Though comments such as Mr Woods-Scawens' may "prick the City's conscience", he says, managers are under intense pressure to perform, which limits the effort they can put into just 5 per cent of the market.

Richard Plackett, head of smaller companies at M&G, which has a heavier weighting at this end than most fund managers, says: "There has been a tendency over the last three or four years for the minimum size of a company at which institutions will look to go up, largely because of consolidation of funds." It can be especially difficult for brokers to market companies with a capitalisation below £20m.

He adds: "I think the tendency towards larger cap stocks has left some high-quality small companies undervalued. There's an opportunity to take out of that."

He cites Victrex, a north-west manufacturer of high-performance plastics; Volex, a north-west maker of cable assemblies; Pressac, a Nottingham-based electronic components manufacturer; and Hampson Industries, a Midlands aerospace manufacturer. He also believes Firth Rixon, a Sheffield-base engineer, remains undervalued despite gaining recognition from the City.

Mr Plackett sees a chink of light: "There are early signs of interest returning to smaller companies generally. I think we will see a return of interest in smaller manufacturers if sterling weakens."

The City's lack of interest can, of course, bring opportunities for regionally-based financial groups. The case of Lynx, a computer software company, is instructive. Shares in the then Sheffield-based company were offered to the institutions at about 80p last autumn, and there was not much interest. Lynx shares have since jumped to more than 200p. The company is still expanding and is promising 20 per cent growth a year for the next three years, so now the fund managers are interested.

Stuart Sharp, who runs BWD Rensburg's smaller companies trust, says: "The institutions started buying once the shares reached 160p. The fact that they are local and a small company means we were able to buy cheaply. We bought into the company five or six years ago on the back of a very good management team."

The issue is certainly part of a broader problem for smaller companies. Despite the launch of the Alternative Investment Market there remains an "equity gap" which is exacerbated in the regions, says Ian Robinson, senior partner of KPMG in Bristol. It is not easy to resolve.

In the meantime, the smartest companies do what they can by hiring the best professional advisers. There can be no harm, though, in rattling the City's cage. The more loudly the argument is made by the likes of Mr Woods-Scawen, there must surely be some chance of shaming the institutions about the winners they could be picking.

EU ministers to review policies on cities

Continued from Page 1

idents and a lively but potentially noisy night life economy.

As the pace of attempts to attract more people to town centre living quickens, one of the most difficult questions concerns the extra cars that additional residents threaten to drive and park on crowded urban streets.

A study last year by Llewelyn Davies, consultants, for the London Planning Advisory Committee (LPAC) and the Government Office for London leads the LPAC to conclude that the number of homes that could be provided on town centre sites around the capital could more than double to 107,000 if provision did not have to be made for car parking with dwellings.

This summer the LPAC hopes to announce a pilot scheme in a London area aimed at proving that a combination of higher density housing, reduced provision for cars and environmental improvements could generate a more vibrant and enjoyable style of urban community life.

"I feel the climate of opinion is shifting quite palpably towards a realisation that we cannot go on as we are," says Martin Simmons, the committee's chief planner. "If current levels of provision for car parking did not have to be made on housing developments it would be possible to provide more attractive forms of accommodation in urban areas, particularly for the growing number of smaller households."

Almost all organisations with an interest in town centres emphasise that their future development must be addressed in a comprehensive way that is linked to wider regeneration objectives, combining the economic, social and physical aspects of urban renewal. There is more to the revival of town and city centres than improving the streetscape, or judging success purely by the condition of the retail economy.

"The future of our towns and cities – and hence the prospects of attracting large numbers of people to remain in or return to them – is likely to rest on policies on education, crime and social welfare," concluded a study published by the Town and Country Planning Association last month.

"All of the issues that drive people from urban areas need to be tackled in unison," according to the study report. "Middle income people need to feel comfortable in sending their children to local state schools. Everyone needs to feel safe in the cities. Welfare policy needs to relieve urban poverty and give people the dignity that makes them responsible citizens and good neighbours."

By connecting the current drive to provide more housing in urban areas with the achievement of appropriate education, employment, public safety, welfare and transport objectives, Michael Breheny, professor of applied geography at Reading University and co-author of the report, sees its recommendations as offering "an integrated strategy for the revival of our cities and towns".

But he warns: "To be successful, the scale of investment and ingenuity will have to move to a different plane, requiring a level of commitment never before contemplated by government."

CORRECTION

European prosperity

In last month's European prosperity league table, the Belgian region of Bruxelles-Brussels should have been 2nd with 183 per cent of EU average GDP per head, Vlaams Gewest 17th with 115 per cent, and Region Wallonne 41st with 91 per cent. The figures were wrongly stated in the UK government's Regional Trends 1997.